

REVITALIZING AMERICA'S RURAL AND URBAN COMMUNITIES

4. SM 1/2: S. HRG. 104-292

Revitalizing America's Rural and Ur...

HEARING BEFORE THE COMMITTEE ON SMALL BUSINESS UNITED STATES SENATE ONE HUNDRED FOURTH CONGRESS FIRST SESSION

OCTOBER 19, 1995



Printed for the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1995

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REVITALIZING AMERICA'S RURAL AND URBAN COMMUNITIES

THURSDAY, OCTOBER 19, 1995

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The Committee met, pursuant to notice, at 9:31 a.m., in Room 428A, Russell Senate Office Building, the Honorable Christopher S. Bond, Chairman of the Committee, presiding.

Present: Senators Bond, Warner, Frist, Bumpers, and Kerry.

OPENING STATEMENT OF THE HONORABLE CHRISTOPHER S. BOND, CHAIRMAN, COMMITTEE ON SMALL BUSINESS, AND A UNITED STATES SENATOR FROM MISSOURI

Chairman BOND. Good morning. The Committee on Small Business will come to order. I would like to extend my thanks to everyone for attending this morning's hearing on the Commercial Revitalization of Rural and Urban Areas.

Let me begin by advising our witnesses and guests that I believe we are scheduled for a series of votes about 10:30 a.m.. So we are going to have to interrupt the hearing at that time. I do not know how many votes are stacked. We will try to move along as quickly as possible, but it is likely that we will have to delay the later panels to take account of that delay in the proceedings.

Senator Bumpers has indicated that he will be joining us as will other members of the Committee. But since we do have two of our witnesses here now, we are going to move ahead.

Let me begin by setting the framework for this hearing. The role of America's businesses, in particular the small business community, is critical if we are going to be successful in rebuilding low-income areas in our cities and the rural poverty areas of our Nation. No amount of training dollars can insure the revival of these communities if there are no jobs. And we must have businesses, in particular small businesses, locating and thriving in these areas if we are to provide those jobs.

Going back to the time when I had the pleasure of serving as Governor of Missouri, I spoke often with community leaders about the plight of our cities. They told me then, and they are telling us now, that they have all the training money they need. They said, stop sending us training money. Send us some jobs. We need to get our people into good employment situations.

Creating new jobs in an economically distressed area has been one of the greatest challenges for many of our Nation's governors, for the mayors, for civic and community leaders throughout our

country. The trend is for businesses to locate in areas where there are customers and a skilled work force. Asking a business to locate in a distressed area often seems counter to the potential for success. But, without businesses in these communities, we do not create jobs, and without new jobs we are unlikely to have a successful revitalization effort.

Recently, I outlined a proposal to create what we call the Historically Underutilized Business Zones, or HUBZones. HUBZones are areas within metropolitan and rural communities that have very low income and high unemployment. The goal of my proposal is to permit any small business located in a HUBZone to receive a special preference or set aside in bidding on Government contracts. To be eligible, the small business would have to employ a significant number of individuals residing in a HUBZone. Not necessarily that particular HUBZone, but residing in a HUBZone.

The goal is simple. I want to create an immediate and meaningful incentive to encourage small businesses to locate in and employ people who live in economically distressed communities, whether they be inner cities, rural areas, or Native American reservations.

I have been very pleased to have some positive response to this proposal. Recent reports indicate that even the Small Business Administration likes the idea and has circulated a proposal that adopts some of the HUBZone proposal's basic concepts.

We have a very diverse and a very outstanding group of witnesses this morning who will discuss their proposals to encourage community revitalization. They will also discuss their roles in making this rebirth of rural and urban areas happen.

We are pleased to begin with our Senate colleagues testifying this morning. Senators Abraham and Lieberman will lead off. Senator Lieberman is a member of this Committee and will speak about their bill, the Enhanced Enterprise Zone Act of 1995, which was recently introduced in the Senate. We hope to have two other colleagues who have been delayed joining us later on. Then we look forward to the testimony of the former Secretary of Housing and Urban Development, and Congressman from New York, Jack Kemp. Secretary Kemp was known for his tireless efforts to make enterprise zones a success.

We are also very fortunate to have four witnesses from the private sector, each involved in efforts to revitalize our urban and rural communities. They have extensive experience in this area, and I think their testimony can provide us with an in-depth look at what has been accomplished and what we in Congress can do to stimulate further develop in these communities.

Since we have many witnesses to hear from today we will now turn immediately to the testimony of our colleagues. I would like first to call on Senator Lieberman and welcome him to the Committee on the other side of the witness table.

STATEMENT OF THE HONORABLE JOSEPH I. LIEBERMAN, A UNITED STATES SENATOR FROM CONNECTICUT

Senator LIEBERMAN. Thank you, Mr. Chairman, and thanks for your leadership in this effort which I appreciate greatly. I am delighted to be here testifying on behalf of S. 1252, the Enhanced Enterprise Zones Act of 1995, which I am honored to have introduced

with my colleague and friend, Senator Abraham of Michigan. In turn, I would say that we are delighted by the bipartisan support that this measure so far has gathered. To date, Senators Santorum, Moseley-Braun, DeWine, and Breaux have signed on as cosponsors. In fact, Senator Moseley-Braun had wanted very much to be here to speak but is sorry that she cannot be. I believe it is because of the markup going on in the Finance Committee.

Across this country, Mr. Chairman, there are differing views on the state of race relations, affirmative action and minority set-aside programs like the 8(a) program. Racial divisions in this country have been highlighted by the O.J. Simpson trial and to some extent, I believe healed by the message that came from the men who traveled to Washington to be part of the Million Man March on Monday.

The differences across America on issues like affirmative action and 8(a) also exist among our colleagues here in the United States Senate. Nonetheless, I think that there is a statement that can be made, which is that regardless of what each member of the Senate believes we should do about the racial divisions in this country, or about affirmative action, or about minority set-aside programs, I think we can say that each of us believes that not enough is being done to help those people who live and work in, and want to start businesses in the economically distressed urban and rural areas of this country. Any response to the economic distress in these areas which does not include a mechanism to attract businesses and jobs back to these areas is a response that is destined for failure.

Mr. Chairman, we took a step toward identifying and helping these areas by passing the Empowerment Zone and Enterprise Communities Act of 1993. That bill does a lot for the nine designated Empowerment Zones and the two supplemental Zones, but does far less for the 94 designated Enterprise Communities, not to mention the numerous other urban and rural areas of our country that are genuinely in need. With the passage of that legislation, Congress recognized something that our States have acknowledged for many years: Government loses the war on poverty when it fights alone. We have got to involve the private sector. We need to create partnerships with business.

What we need to do is to figure out a way to pull the people and the places with little or no stake in our economic system, into that economic system. We need to answer "yes" to the question posed by Paul Pryde, the coauthor of Black Entrepreneurship in America when he asked, "Can we make the market work for the discouraged, isolated and frequently embittered underclass?"

I repeat, we must answer that question yes. But to do so, Senator Abraham and I feel strongly we need to build on and expand the law we adopted in 1993. The Empowerment Zone legislation of 1993 was a fundamental change in urban policy. It was a recognition, more clearly I think than ever before, that American business can and must play a role in revitalizing America's poorest neighborhoods and giving hope and opportunity to America's poorest people.

It was a step in the right direction, a big step. But we need to go further, particularly in helping the existing 94 Enterprise Communities. This bill, S. 1252, is designed to supercharge these zones.

We propose to add tax incentives and other Federal assistance to these zones with an eye toward the creation of economic opportunities for the urban and rural poor.

Very briefly, the bill provides a zero rate of capital gains tax on the sale of any qualified zone stock, business property, or partnership interest that has been held for at least 5 years within an enterprise zone or Enterprise Community. It allows individuals to deduct the purchase of qualified enterprise zone stock from their income, up to \$100,000 in 1 year and \$500,000 in their lifetime. And it allows businesses to double the maximum allowable expensing for purchases of plant and equipment in these enterprise areas.

S. 1252, also includes a modified version of a proposal which Senator Hutchison has been working on to provide a limited tax credit to businesses to help defray the cost of construction, expansion and renovation in these hard-pressed zones. While revenue constraints have forced Senator Abraham and me to scale back that proposal, we hope that it will work so well that we will want to expand it in the future. A good place to start that expansion might be by having Senator Hutchison's proposal cover some or nearly all of the 400 other communities who applied, but were not granted, status as either an Empowerment Zone or an Enterprise Community.

The second feature of the package makes possible some limited regulatory relief in these urban and rural areas which is a provision that tracks a broader proposal that Senator Ashcroft has introduced.

A third initiative embraced is low-income homeownership and residential management of public housing, which of course, our friend Jack Kemp—our friend and in some sense our ideological godfather in this entire proposal—has been instrumental in pressing us to make this happen.

And finally, Mr. Chairman, this bill funds a pilot school choice project providing low-income parents and their children financial assistance to enable them to select the schools of their choice. Many urban school systems are undergoing much-needed reform. This provision, I think, will encourage that effort and draw on a proposal that I have introduced and cosponsored with Senator Coats of Indiana.

So the initiatives contained in our bill attack economic distress on several different fronts. The tax incentives are designed, obviously, to make investments in economically distressed areas powerfully attractive. The school reform provision recognizes that all of the tax incentives in the world will not make economically distressed areas viable if we do not have skilled and educated workers. And the housing provisions in this bill are designed to give low-income families the most tangible and classically American stake in their communities and in the system, which is the ownership of their own homes.

Setting down a stake in the system has been out of reach for the poorest among us for far too long. We believe that S. 1252 will create opportunity for those who work hard, educational opportunities for those who want to learn, ownership opportunities for those who want to own property, and support for those families who need it.

Mr. Chairman, I would just quote briefly, if I may, in closing, from an article in yesterday's New York Times that carried a story

about Laval Thomas, who is a former Green Bay Packer running back, African-American, and currently a successful entrepreneur, speaking to a group of high school students in Washington, D.C. And let me just tell you some of the questions that the students asked Thomas: How did you get a loan? Was it harder for a black man to get banks to lend money than a white man? Would blacks buy from other blacks? What did he, Mr. Thomas, give back to the community?

Mr. Chairman, these are great questions for the kids to be asking. They really all get the issue of how do I become part of the system? How do I become upwardly mobile in the American economic system? That is exactly what S. 1252 is designed to make easier for these students and others like them throughout America.

I thank the chair.

Chairman BOND. Thank you very much, Senator Lieberman. Let me turn now to Senator Abraham, and then we will have more opening statements from the Committee. But again, Senator Lieberman, we very much appreciate your thoughtfulness and your explanation of the measure. Now it is a pleasure to hear from Senator Abraham.

STATEMENT OF THE HONORABLE SPENCER ABRAHAM, A UNITED STATES SENATOR FROM MICHIGAN

Senator ABRAHAM. Thank you, Mr. Chairman. Thank you for providing this opportunity for us to examine some of the strategies that, as we move into a new century are, in my judgment, the types of approaches we need to bring economic opportunity to all parts of our country.

As you are well aware of, the idea that Senator Lieberman and I have been working on is one that has been championed in Congress for some time and first championed by a speaker who will be here a little later as a witness, Jack Kemp, back in 1980 when he introduced the first enterprise zone bill along with Congressman Rangel. What we need to do and what we are trying to do with this legislation is to revitalize the most distressed urban and rural areas of our Nation, and talk today a little bit about how I think the centerpiece of that revitalization must be small business, which makes this topic especially relevant to this Committee.

The reasons behind the early support this concept received was the notion that giving jobs, creating tax cuts and other economic incentives to residents and businesses, particularly small businesses in distressed areas, was the way to go. I think the philosophy that outlined those first bills are still with us today. Certain areas of our great Nation, whole communities in fact, are missing out on the American dream. Certain areas and groups in this land have little hope, little promise for the future, and consequently, little incentive to work hard to get ahead and move up on the ladder of success.

Since the mid-1960's, America's largest 25 cities have lost about 4 million residents. Businesses are leaving as well; leaving large urban centers for less populated and less taxed areas. In my own State of Michigan, the number of businesses in Detroit has declined by 50 percent since its peak earlier in this century. As a result, half of the people who live in our distressed urban areas live below

the poverty threshold. In 1993, \$14,763 was the typical income for a family of four.

People in distressed neighborhoods lack the opportunity to learn productive skills. Their schools see too much violence. Their streets are dangerous and their housing is little better. Neighborhoods across the country, both rural and urban, lack the essential ingredients for economic success in our entrepreneurial system. Our goal should be to help them so that they may join the mainstream of our economy and of our society.

At the same time, I believe we must keep in mind that no centralized, Washington-knows-best bureaucracy can produce prosperity in our varied and diverse Nation. Instead of prosperity, these centralized programs too often produce welfare dependency and a breakdown of the institutions of family and neighborhood; institutions which I think are essential if our communities are to be stable and productive on a long term basis.

We have learned that the hard way I think. Federal programs that ignore the particular circumstances and needs of our rich and varied communities often do more harm than good. We have spent \$5.4 trillion on the war on poverty and yet too many areas in our country remain below the poverty level.

You may have heard the recent statistics that Americans living in poverty declined last year by 1.2 million people. That is very good news. But today's poverty rate is still 4 percent higher than it was just 20 years ago. So after decades of spending from Washington, we have not made enough progress. For that reason, Senator Lieberman and I and those who joined us in this bill believe that we can do better and that we should address alternative ideas to bring about better communities and to try to help our economically distressed communities.

So as this Congress continues its revolutionary work, in my view we must emphasize positive empowering approaches such as that which our colleagues that Senator Lieberman referenced, Senators Moseley-Braun, Breaux, Santorum, and DeWine, have joined us in submitting. Programs to enhance and extend existing Empowerment Zones and Enterprise Communities.

Improving these areas means improving opportunities for our people. Recognizing that the best welfare program is a good job, we seek to make those jobs more plentiful in distressed areas through entrepreneurial capitalism. Recognizing that taxes constitute a very real and onerous cost of doing business, we seek to spur growth by allowing individuals and businesses to keep more of what they earn in the areas that need economic investment the most. We believe that our proposal is innovative, but it is not an out-of-this-world proposal. It is based on solid economic experience and existing legislation. Our amendment will, as Senator Lieberman has said, in effect supercharge existing Enterprise Communities and Empowerment Zones.

In 1993, when Congress created nine Empowerment Zones and 95 Enterprise Communities, the nine Empowerment Zones received the bulk of the tax and grant incentives provided for in the bill. The Enterprise Communities received a much smaller package of Federal incentives. We believe that existing Enterprise Communities and Empowerment Zones do not go far enough in encourag-

ing entrepreneurial activity in our most distressed communities. We believe that much more dramatic results can be gained through increased incentives.

Accordingly, as Senator Lieberman outlined already, our Enhanced Enterprise Zone Act would establish a capital gains rate of zero for the sale of any qualified investment that is held for at least 5 years in existing zones and communities, permit limited income tax deductions for the purchase of qualified stock in businesses located in an Empowerment Zone or Enterprise Community, double the amount small business owners in these zones are allowed to expense, provide a limited tax credit for low-income renovations, provide incentives and grants for resident management and homeownership of public housing, and create a pilot school voucher program for the existing Empowerment Zone, supplemental Empowerment Zones, and Washington, D.C., and provide Empowerment Zone and Enterprise Community operations and governing boards with a system through which they may seek waivers of Federal rules and regulations which impede economic development.

First, Mr. Chairman, we would cut taxes on investment in business activity in distressed areas. In this way we would promote small business growth and job creation. Second, we would provide incentives to encourage public housing tenants to become owners. In this way Enterprise Community residents will become greater stakeholders. This will foster community spirit and group efforts to fight crime, drug abuse, and vandalism that hurt an area's economic and social fabric.

And we would encourage school choice. The Enhanced Enterprise Zone Act creates a pilot voucher allowing low-income parents who live in the zones to choose the school that will be best able to serve their children's needs. Our current education system divides parents into two classes: those who can afford to move into good neighborhoods or send their children to private schools and those who cannot. Our bill would empower the second category of parents to take a more affirmative approach to their children's education by giving them the means with which to choose the school their children will attend. This reform will produce better educated students and adults. In turn, they will make more productive employees and employers and help revitalize our urban and rural areas.

These are the kind of affirmative programs that will bring Americans together, that will promote economic opportunity and jobs, which is in everyone's interest. We believe this concept makes it more feasible for the rural and urban poor to become full participants in our market economy. In short, we believe this bill produces the kind of opportunity society our Nation has always been and always should be about.

Mr. Chairman, people may ask, will enhanced enterprise zones work? The answer quite simply is yes. We know they will work because 35 States and the District of Columbia already have enterprise zones that have produced over 663,000 jobs and \$40 billion in capital investment. The enterprise zone concept has been endorsed by the National Governors Association, the Conference of Black Mayors, the Council of Black State Legislators, and the U.S. Conference of Mayors.

So the real issue is, I think, where do we go from here? In our view, enterprise zones have been debated long enough—for over a decade in fact. We think it is time to act and today we begin this effort.

We very much appreciate the opportunity to present our ideas to this Committee. Thank you very much.

[The prepared statement of Senator Abraham follows:]

SPENCER ABRAHAM
MICHIGAN

United States Senate

WASHINGTON, DC 20510-2203

Testimony of Senator Spencer Abraham
Before the Senate Committee on Small Business
October 19, 1995

Mr. Chairman:

Thank you very much for giving me this opportunity to share with you my views on economic empowerment. I am particularly appreciative of this chance to discuss what we need to do to revitalize the most distressed urban and rural areas of our nation, and how America's small businesses can help.

As many of you no doubt are aware, Jack Kemp first championed economic empowerment back in 1980, when he introduced the first enterprise zone bill along with Congressman Rangel.

And the reasons behind that early support for giving job creating tax cuts and other economic incentives to residents and businesses (particularly small businesses) in distressed areas are still with us today: certain areas of our great nation--whole communities--are missing out on the American Dream. Certain areas and groups in this land have no hope, no promise for the future, and consequently no incentive to work hard to get ahead and move up the ladder of success.

Since the mid-1960's, America's largest 25 cities have lost about 4 million residents. Businesses are leaving as well, fleeing large urban centers for less populated-- and taxed-- areas. In my own state of Michigan, the number of businesses in Detroit has declined a whopping 50 percent since its peak earlier this century.

As a result, half of the people who live in our distressed urban areas live below the poverty threshold (in 1993, fourteen thousand seven hundred sixty three dollars for a family of four).

People in distressed neighborhoods lack the opportunity to learn productive skills, their schools see more violence than real learning, their streets are dangerous and their housing is little better.

Neighborhoods across the country-- both rural and urban-- lack the essential ingredients for economic success in our entrepreneurial system. Our goal should be to help them so that they may rejoin the mainstream of our economy and of our society.

At the same time, we must keep in mind that no centralized, Washington knows best bureaucracy can produce prosperity in our varied and diverse nation.

Instead of prosperity these centralized programs produce welfare dependency and a break down of the institutions of family and neighborhood--institutions that are essential if our communities are to be stable and productive.

We learned the hard way, Mr. Chairman, that federal programs that ignore the particular circumstances and needs of our rich and varied communities often do more harm than good.

We spent five point four trillion dollars on the War on Poverty, yet poverty is still basically winning the war. You may have heard the recent statistics that Americans living in poverty declined last year by 1.2 million people. While this is certainly good news, today's poverty rate is still 4 percent higher than it was just twenty years ago. After decades of massive spending from Washington, we haven't made any progress.

In my view, Mr. Chairman, we can do better.

Right now Congress is working to put more Americans than

ever in jobs with futures. We are working to end reliance on government hand-outs. And we are working to free our economic engine to produce growth and prosperity for all our people.

In such times we should not forget the essential role of economic opportunity in revitalizing blighted areas and in getting low income individuals and families off all forms of public assistance.

As this Congress continues its revolutionary work, in my view we must emphasize positive, empowering approaches such as that which my colleagues Joe Lieberman, Carol Moseley-Braun, Rick Santorum and Mike Dewine have joined me in submitting; programs to enhance and extend existing Empowerment Zones and Enterprise Communities.

Improving these areas means improving opportunities for our people. Recognizing that the best welfare program is a good job, we seek to make those jobs more plentiful in distressed areas through entrepreneurial capitalism.

Recognizing that taxes constitute a very real and onerous cost of doing business, we seek to spur growth by allowing individuals and businesses to keep more of what they earn in the areas that need economic investment the most.

Our proposal is innovative, but it is not "out of this world." It is based on solid economic experience and existing legislation. Our amendment will in effect "supercharge" existing Enterprise Communities and Empowerment Zones.

In 1993 Congress created nine Empowerment Zones and ninety five Enterprise Communities. The nine Empowerment Zones received the bulk of the tax and grant incentives provided for in the bill. The Enterprise Communities receive a much smaller package of federal incentives.

We believe that existing Enterprise Communities and Empowerment Zones do not go far enough in encouraging entrepreneurial activity in our most distressed communities.

We believe that much more dramatic results can be gained through increased incentives. Accordingly, our Enhanced Enterprise Zone Act would:

- Establish a capital gains rate of zero for the sale of any qualified investments that are held for at least five years;
- Permit limited income tax deductions for the purchase of qualified stock in businesses located in an enterprise zone;
- Allow regulatory reforms to encourage economic growth and small business formation;
- Double the amount small business owners in these zones are allowed to expense;
- Provide a limited tax credit for low-income renovations;
- Provide incentives and grants for resident management and home ownership of public housing; and
- Create a pilot school voucher program for the existing Empowerment Zones, Supplemental Empowerment Zones, and Washington DC.

First, Mr. Chairman, we would cut taxes on investment and business activity in distressed areas. In this way we would promote small business growth and job creation.

Second, we would provide incentives to encourage public housing tenants to become owners. In this way enterprise community residents will become stakeholders. Owning property there, they will take a greater interest in protecting and maintaining both their own

homes and the area around them.

This will foster community spirit and group efforts to fight crime, drug abuse, and vandalism that hurt an area's economic and social fabric.

And we would encourage school choice. The Enhanced Enterprise Zone Act creates a pilot voucher program allowing low-income parents who live within the zones to choose the public or private school that will best serve their children's needs.

Our current education system divides parents into two classes--those who can afford to move into good neighborhoods and send their children to private schools, and those who can't. Our bill would empower the second category of parent to take a more affirmative approach to their children's education by giving them the means with which to choose the school their children will attend.

This reform will produce better educated students and adults. In turn, they will make more productive employees--and employers--and help revitalize our urban and rural areas.

This is the kind of affirmative program that will bring Americans together. It promotes economic opportunity and jobs, which is in everyone's interest. It makes it more feasible for the rural and urban poor to become full participants in our market economy. In short, it produces the kind of opportunity society our nation always has been and always should be all about.

Mr. Chairman, people may ask, will Enhanced enterprise Zones work? The answer, quite simply, is yes. We know they will work because thirty five states and the District of Columbia already have Enterprise Zones that have produced over six hundred sixty three thousand jobs and forty billion dollars in capital investment.

The Enterprise Zone concept has been endorsed by the National

Governor's Association, the Conference of Black Mayors, the Council of Black State Legislators and the U.S. Conference of Mayors.

And some states already are pushing beyond the limited enterprise zones that already exist. For example, in my own state of Michigan, Governor Engler has proposed an innovative new program of "Renaissance Zones."

As introduced to the state legislature this fall, Governor Engler's Renaissance Zones would provide total relief from state and local income, business, property and utility taxes. Its goal is to focus a complete market-based incentive on distressed areas, rejuvenating them by creating residential, commercial and industrial growth.

As a complement to this program I am proposing the Federal Renaissance Zone Act of 1995. The Act establishes a pilot program for up to 10 states willing, like Michigan, to forego tax revenues from economically distressed areas. Once the states have established their own zero tax zones they may qualify for status as federal no-tax zones.

Renaissance Zones would extend the free-market logic of the enhanced enterprise zone amendment we are considering today.

Where do we go from here? In our view enterprise zones have been debated long enough--for over a decade, in fact.

It's time to move beyond debate and take action. When the reconciliation bill is considered on the Senate floor next week, we plan to offer the "Enhanced Enterprise Zone" bill as an amendment.

This year's reconciliation bill would dramatically overhaul our welfare system, reform how we provide health care to the elderly and the impoverished, and reduce the tax burden on American families and business. In the context of this debate, it is only appropriate that we also look at a proposal that enables lower income families climb the ladder of social and economic success.

In the past, our policies focused on how to help poor people stay afloat.

We've determined that this approach hasn't worked very well, often hurting the very people we were trying to help. Much of the debate over the Republican agenda this year has centered upon how to move away from those policies of the past.

As such, our efforts have been criticized for failing to provide an alternative to those programs we seek to dismantle.

With our "Enhanced Enterprise Zone Act," we are happy to present such an alternative. In place of failed government programs, we are offering our most distressed communities an opportunity to provide better schools, jobs, and homes.

This proposal represents an affirmative effort to create economic opportunities for the urban and rural poor by recognizing that private enterprise, not government, is the source of economic and social development. By fostering job creation and economic growth it will empower all Americans in their pursuit of the American Dream.

Thank you.

Chairman BOND. Thank you very much, Senator Abraham.

Let me turn now to Senator Bumpers for a statement or questions.

Senator BUMPERS. Mr. Chairman, in the interest of time I would be happy to submit my opening statement for the record.

Chairman BOND. Without objection, your statement will be included in the record.

[The prepared statement of Senator Bumpers follows:]

PREPARED STATEMENT OF SENATOR DALE BUMPERS
HEARING ON
REVITALIZING AMERICA'S RURAL AND URBAN COMMUNITIES

October 19, 1995

Thank you, Mr. Chairman. And thank you for holding this hearing on Revitalizing America's Rural and Urban Communities. We definitely need to explore creative ways to spur economic development in our most depressed communities. I have worked for years to help find ways to spur the economy in the Arkansas Delta, where poverty and unemployment are unacceptably high, and I know other members of Congress have similar areas of concern in their states. I therefore hope that our discussion today will shed light on new and innovative ways to stimulate solid, lasting economic activity in these areas.

There are certain potential pitfalls, however, which we must consider regarding the legislation at hand. The idea of providing tax breaks in economically depressed areas is an appealing idea, but I am concerned about line-drawing and how fairly we could draw those lines. Perhaps we could simply use the existing empowerment zones and enterprise communities as the beneficiaries of the legislation, but what about other areas which may be just as hard-pressed, but did not have the good fortune of getting the empowerment zone/enterprise community title? Is it fair to make them pay higher taxes when they are as economically deprived -- maybe more so -- than some community getting the tax breaks? That is a difficult question, and I think we need to consider it carefully. Moreover, I think we need to be very careful to avoid opening the door to fraud and abuse by unscrupulous companies whose only intention is to take advantage of tax breaks for a few years before closing down and moving away.

There are also issues before us today which, I believe, should be separated from the economic issues. For example, this legislation contains a school voucher proposal, a subject which always raises separation of church and state questions, and, in my opinion, is properly analyzed with different criteria than those affecting economics.

Having said all of that, I am glad we are here today exploring ideas for rejuvenating economically depressed areas of our country. It is an extremely important topic, and I look forward to hearing from the witnesses.

Chairman BOND. Do you have any questions for the witnesses?

Senator BUMPERS. First of all let me confess, Mr. Chairman—I thank you for deferring to me because I am going to have to leave in a minute. But first of all, I want to compliment both of you for your ingenuity and creativity in crafting this bill. Obviously, we have been trying to do things similar to this for a long time. I have not had a chance to study it in depth so I am not in a position to really critique it. However, there are some things about it that worry me a little bit.

Let me ask you first, Senator Lieberman, under the bill how would areas such as the delta in my State, Louisiana, and Mississippi, qualify? They are not cities. They are towns of anywhere from 2,000 to 20,000 people that are literally drying up. They are the only parts of my State that lose population every year. How would they qualify under this?

Senator LIEBERMAN. Senator Bumpers, thanks for the question. We are actually building on the legislation that was adopted in 1993 and has been implemented which had various categories for both rural and urban poor areas. This is an attempt to really, as Senator Abraham and I said, supercharge the benefits in those zones. We created Empowerment Zones, so-called, which got a fair amount of governmental aid. We designated these other 94 Enterprise Communities which got much less. This is basically what we are saying, take these additional benefits and plug them into those communities that have been designated, and a number of them, a significant number of them, by the 1993 legislation are rural.

We did that for reasons of resource limitation. My extraordinarily able and responsive staff has now handed me this document which suggests to me that in Arkansas among the designated zones are Little Rock, Pulaski County, Mississippi County, Cross, Lee, Monroe, and St. Francis Counties. You know, you did very well under this program.

[Laughter.]

Senator ABRAHAM. If I could just add a point to what Senator Lieberman said. When we sat down to try to identify how to implement or where to implement these ideas, the one issue that I think both of us immediately agreed on is that we did not want to turn our legislation into a piece of legislation that was seen as either attempting to supplant or become somehow in conflict with the legislation that passed in the last Congress, the Empowerment Zone Act, because we saw these things as being not mutually exclusive, but we saw our ideas as being ways by which that legislation could be enhanced.

So instead of getting into a political battle over which parts of the country ought to benefit, we sort of felt that decision or those decisions had been made in the designation of the original nine zones and the two supplemental zones and the 94 or 95 Enterprise Communities. So we said, let us just continue in the direction that the Administration has already outlined so that we do not end up with this becoming a sort of chess board of, my area did not get in last time so now I am going to put it in my part of the country or whatever. We thought, let us just build on where we have started and avoid the kinds of political tensions that might come about if we appeared to be presenting legislation that was trying to re-

duce or supplant or in some way diminish what already was moving forward. So that is kind of how we thought it made sense to approach this.

Senator BUMPERS. Senator Lieberman, you said a while ago, we know this works because it is already working. Where is it working?

Senator LIEBERMAN. Senator Abraham said it but I agree with it totally. I wish I had said it actually.

Senator BUMPERS. Well, maybe I should ask Senator Abraham.

Senator LIEBERMAN. No, that is OK. I have some sort of local interest in this because Connecticut was the first State actually in the early 1980's to adopt a State enterprise zone law. I do not have the numbers right before me, but the return for investment has been substantial according to our State economic development people. That has been the report nationally that we have seen from every study that is done. That is to say that the foregone revenue from tax incentives that are granted in enterprise zones is returned many times over.

All of this has been done without a significant Federal tax sweetener. In other words, these tax sweeteners under the State programs are obviously for State taxes. This would build on the 1993 law, and particularly with the zero capital gains and the deduction for purchase of enterprise stock, I think would create a very significant flow of capital into these poor urban and rural areas.

Senator BUMPERS. I have the utmost respect for you in trying to address what everybody agrees is a very difficult, seemingly intractable problem.

Mr. Chairman, if I may just mention about three things very quickly. No. 1, I wish you well on your capital gains provision. I started chairing this Committee in 1987 and from the first day I chaired it I proposed a small business capital gains where people that invested in small businesses as defined in the bill—and it was pretty liberal—would pay no tax if they held onto the stock for 10 years, and would only pay half what the rate was if they held onto it for 5 years. Then later on I amended it, I believe, to eliminate all taxes if you held onto it for 5 years.

President Clinton—then-candidate Clinton—went from coast to coast saying he was hot for Senator Bumpers. Then after he got elected, the Treasury Department got ahold of him, and you know the rest of the story. It is having virtually no impact now because the liberalized provisions of the bill were all stricken.

I will support this bill because it is essentially the same principle only you are applying it to enterprise zone stock. Incidentally, I assume you are talking about stock in a business in an enterprise zone.

Senator LIEBERMAN. Yes.

Senator BUMPERS. Second, let me say that I am very concerned about school vouchers. I am not a proponent of school vouchers. On the one hand, you are trying to get business to come into essentially crime-ridden areas and you are trying to take students out. Both are laudable in a way, I suppose. But I always worry about vouchers because I think it gets into the church-State relationship issue on which I have very strong feelings.

Finally, I would say that it is extremely important—let me just, one other prefacing remark to what I was about to say—the biggest problem of getting business into the areas you describe in your bill is crime. People simply do not want to go into those areas and their employees do not want to go into those areas. Of course, you want the people who live there to be employed there. But it never seems to quite work out that way.

Crime is the biggest problem in these zones you are talking about. Obviously, what you are trying to say is maybe crime would be reduced if you get these people decent jobs, decent housing. The lack of those things breed crime. So you are off on the right path. I applaud it.

Do you have any intention of trying to get this wrapped up in the reconciliation by any chance?

Senator LIEBERMAN. I think we would. We have talked about the possibility of introducing this as an amendment on reconciliation and seeing if we can get some support for it. I have begun to try to make the case in the Administration for this as a desirable goal.

I do want to say, Senator Bumpers, that the truth is that what we have done here in this proposal is exactly what you proposed some years ago for investments in small businesses, which is to go to the zero capital gains rate.

If the chairman will allow, this is only two sentences, I have got a quote from Robert Lucas who is an economist at the University of Chicago and just won the Nobel Prize in economics. He said, "When I left graduate school in 1963 I believed that the single most desirable change in the U.S. tax structure would be the taxation of capital gains as ordinary income. I now believe that neither capital gains nor any of the income from capital should be taxed at all." He goes on to describe the result of reducing capital gains taxes as what could be called the largest genuinely free lunch, which is to say that it will stimulate growth.

Just a final word. You are absolutely right about crime. In a way, obviously we hope that some of the other things we have done on the crime bill and the cities are doing to fight crime will make urban areas more attractive. But part of why we have to offer these supercharged incentives, financial incentives for businesses to locate in the city is to counteract some of the negative influences of crime. To try to say, in the balance, as business decides whether to go out to a non-urban or non-poor rural area, less crime, that disincentive is so sweet that they will overcome those fears. Maybe they will have the additional money to spend on more security.

Chairman BOND. Thank you. Senator Frist.

Senator FRIST. Thank you, Mr. Chairman. I too want to congratulate you for holding these important hearings today. I would just ask unanimous consent that my entire opening statement be made a part of the record.

Chairman BOND. Without objection, it will be included in the record.

[The prepared statement of Senator Frist follows:]

**PREPARED STATEMENT OF SENATOR BILL FRIST
COMMITTEE ON SMALL BUSINESS
REVITALIZING AMERICA'S URBAN AND RURAL COMMUNITIES**

October 19, 1995

Chairman Bond, I would like to commend you for holding this important hearing today. All year long, the Small Business Committee has dedicated itself to promoting the growth of small businesses, our nation's number one job creators. We all recognize that entrepreneurship is the key to better jobs, a successful economy, and a higher standard of living. Our nation's inner cities and distressed rural communities are desperate to obtain that key of economic opportunity.

If it is difficult for small businesses to grow in affluent areas, imagine their struggle in an inner city. It is hard to attract customers to your business when unemployment in your neighborhood surpasses 40 or 50 percent. It is difficult to house your business because vandals will destroy your property, and high crime rates drive up the cost of insuring it. And it is nearly impossible to hire well-qualified employees because high school dropout rates exceed 80 percent.

The time has come to energize entrepreneurship in our distressed inner cities and rural counties. Almost every small business owner who testifies before this Committee echoes a similar theme: get the government off my back so I can build my business. All of us have heard their pleas for relief from excessive regulations, restrictive taxes, and reams of paperwork. The 104th Congress has been working very hard to make the federal government more "small business-friendly." We must apply these same policies and principles to impoverished communities.

The witnesses testifying today are turning bold visions into practical actions. Mr. Kemp, the "father of enterprise zones," can tell us where we have been and where we should go. I look forward to his views as head of the Tax Reform Commission on how we should incorporate community development into broader reforms of our tax code.

Senators Abraham and Lieberman want to help small businesses in enterprise zones where they need it most -- their bottom line -- by improving access to capital and helping maintain cash flow. Senators, I would like to add my name as a cosponsor to your bill.

I also am pleased to support Senator Hutchison's legislation, S. 743, the Commercial Revitalization Tax Credit Act. By providing entrepreneurs with tax credits for construction and expansion in impoverished communities, her bill lowers another government hurdle to growth. Finally, I commend Senator Ashcroft for recognizing that regulatory relief is a critical component to any successful business startup.

In Tennessee, we have urban enterprise communities in Memphis and Nashville as well as in rural counties in West and East Tennessee. On behalf of the residents of these communities and any struggling county in Tennessee, I would like to thank the witnesses for their hard work. I look forward to hearing the testimony from both Senators and our witnesses on the front lines of the Enterprise Zone program. We must work together to create economic opportunities where they are needed the most.

Senator FRIST. Clearly, we all recognize that entrepreneurship is the key to better jobs, a more successful economy, and a higher standard of living. Our Nation's inner cities and distressed rural communities are desperate to obtain the key to economic opportunity. Senators Abraham and Lieberman clearly want to help small business and enterprise zones where it helps them the most, and that is the bottom line, by improving their access to capital and helping maintain cash flow. I would ask both of you to add me as a co-sponsor to your bill today as well.

Senator LIEBERMAN. Thank you.

Senator FRIST. I guess the single question that I would ask both of you to comment on stems from the fact that some have criticized the enterprise zone program today as a top-down, Washington-directed policy micromanaged by a large bureaucracy. This year, as you both know, in Congress we have worked very hard to loosen Federal controls and return power back to the States. What steps are you taking in the bill to limit bureaucracy and maximize that flexibility for localities to tailor their business growth to their particular needs locally?

Senator ABRAHAM. I think there are at least two things that come immediately to mind, Senator Frist. First of all, the notion behind our bill is not that we have a bureaucracy sort of trying to manage Federal dollars in grants or other ways of creating economic opportunity, but rather that we would create incentives for businesses, particularly small businesses, to make decisions to create jobs in the areas of our country that are most economically distressed. So it sort of changes the philosophy of the kind of Washington grant mentality into a entrepreneurial capitalism mentality we hope which would infuse these zones with the kind of supercharging both of us have talked about.

I think that is the missing ingredient in at least my judgment in the current package. I supported the Empowerment Zone idea but I felt it came up short in terms of creating the kinds of ongoing permanent incentives for people to make their own decisions as entrepreneurs to create jobs and economic activity. All too often we have seen that Washington-run programs aimed at helping distressed areas, particularly urban areas that are in economic distress, only run as long as the Federal dollars are being sent in and then all of the sudden they disappear; the hope and opportunity disappears. So that is one way.

The other thing we are trying to do is in the section of our bill which relates to regulatory circumstances, we have provided a means by which the governing boards of the Empowerment Zones and Enterprise Communities can apply for waivers of most, not all, but most of the kinds of rules and regulations that the Federal Government imposes on job creators to try to provide opportunities to have those regulations waived, eliminated, and thus break down some of the impediments to creating new businesses.

Our regulatory relief package would not allow the waiver of health and safety and environmental regulations that protect people in these zones and communities, but they would allow I think for a fair amount of the current existing impediments to be waived if the governing board applies and if the regulatory agency agrees. I think that is another part of the problem that we talk about

when we talk about the cost of creating new opportunities in these distressed areas. Not only is there a safety factor cost, the crime problem that was alluded to by Senator Bumpers, but also the fact is that a lot of the rules and regulations are disproportionately onerous in these areas. So we have created a way by which we can minimize the bureaucracy rather than maximize it.

Senator FRIST. Thank you, Mr. Chairman.

Chairman BOND. Thank you very much, Senator Frist. Gentlemen, let me say that we started enterprise zones in Missouri in 1982, and our next witness joined me in Missouri as we kicked off the enterprise zone concept. I would say, if my memory serves me correctly I think we had created by the time I left office as governor at the end of 1984, about 8,800 jobs in central city areas as well as rural areas which had been designated enterprise zones. I like the concept of enterprise zones. I really believe it is something that can bring jobs where there is poverty and high unemployment. There are a couple of problems with it, and I would welcome your comments.

No. 1, sometimes the selection criteria is a bit suspect. We started off with 25 enterprise zones to be selected by the State administration in Missouri. Obviously, there were some that got selected immediately. Since that time there has been growing political support to make more and more places enterprise zones, and the controls have not been too strict as to what areas become enterprise zones. I noticed on the list of zones that had been selected by HUD, obviously they have designated the central city areas of Kansas City and St. Louis in my State, and they have picked only one rural area in my State.

Now I know firsthand that, No. 1, there are particular areas in St. Louis and Kansas City which should be considered for enterprise zone assistance, and there are a significant number of additional rural areas where there is very high poverty and unemployment. In the proposal that we are studying, we are trying to find a criteria combining high unemployment and high poverty for the designation of zones, whatever kind of zones you call them.

No. 2, we have run into the problem at the State level the tax incentives are not enough, and at the Federal level any time you are trying to provide tax incentives you run into the problem of the revenue scoring. The Treasury Department, as Senator Bumpers cited, always puts limits on the amount available. That is why for the second part we are examining the idea of utilizing the concept of the 8(a) program as a means of giving opportunities to any business that would locate in what we are going to call HUBZones, the opportunity to bid for set-aside contracts.

In hearings in this Committee, one of the criticisms of the 8(a) program has been that it does not always bring jobs to the areas of highest need. That is why we are looking at expanding this concept to make it a designated area as well. I would note, No. 1, that you avoid the CBO-OMB budget scoring problem. There is a mechanism in process already there for the set asides.

I would welcome your comments and, frankly, your criticisms on the two concepts, setting an objective standard, No. 1. And No. 2, utilizing a set-aside provision either instead of or in place of the tax and other regulatory relief incentives.

Senator Lieberman.

Senator LIEBERMAN. Thanks, Mr. Chairman. It is a worthy goal to set an objective standard. Jack Kemp and I and others who were involved in the enterprise zone battle really from about 1989 till 1993, at various stages we had—I think we were up over 300 zones at one point by one standard of need, and it seemed to me to be a reasonable standard of need as you think about the entire country. When the bill was finally passed in 1993 my greatest regret was that there were only these 11 really significant zones, and then the 94 Enterprise Communities, which were better than what was before, but were not really, in my opinion, a good test of the program.

So that any standard that can expand to points of need—this is always a question of balancing the resources available with the need that is out there. It is the classic question we constantly face. Although we feel that you have got a tremendous multiplier effect potential here with the tax reductions that we were talking about. And I would be delighted to work with you on this.

Senator Abraham and I when we started out decided to build on the existing zones that have been designated, to try to supercharge them so that at least we were giving the 94 Enterprise Communities a lot more than they have now to prove that this idea can work, and then to come back and do more later.

I am interested in your work on the 8(a) program and I would like very much, without taking more of your time, to work with you on it. I think you are heading down a very constructive road which will realize the goal—which has the potential I think to much better realize the goal of the 8(a) program, which is to create small business opportunities and job opportunities where they are truly most needed.

Chairman BOND. Thank you, sir.

Senator Abraham.

Senator ABRAHAM. Thank you, Mr. Chairman. I do not have much really to add to what Senator Lieberman has already said. I guess I had just a couple of generic thoughts about this. One is that I think there is going to be a witness who is going to come up here not too long after me who will argue, as I probably would argue, that if we made the whole country an enterprise zone that might be the best way to go. I do not know if I have stated that correctly or not, but I bet you will hear that from him.

As Senator Lieberman said and I think I alluded to this earlier, we just felt that at least at the threshold instead of getting into a battle over geography and politics as to what should or should not be included we said, let us try to work cooperatively with the Congress that has already passed the Empowerment Zone bill and the Administration that has already designated communities. Let us not get into a situation where we are trying to change the political turf because there is a new bill on the table. So that is why we just moved in the direction we have.

We had no intent to preclude areas that had been left off the original list, but we thought that perhaps some evidence of success would create reasons for HUD to add additional communities at some point to the idea.

The other point you make is, of course, one that we are vexed by as well; namely, the scoring systems that are in place. I guess I do not have any unique solution to it, but I have to say that I have a hard time going to the city of Detroit, or the city of Muskegon, or Flint, or some of the areas that have been designated in Michigan and saying, it is really too bad we cannot make it possible for the people who live in distressed areas to have jobs simply because economists in Washington cannot figure out how to determine how much revenue we are losing because businesses that do not exist here will not be paying as much tax if we have a zero capital gains rate on these nonexistent businesses. To me this is kind of a bit of charade.

So I do not know how you wrestle with it, but I think for the good of the country we would be a lot better off to take on the scoring systems that are used in Congress instead of telling people who are living in economically distressed areas that but for some kind of concurrence on statistics you might have a better future and your families might have a greater chance to enjoy the American dream. So I am at least willing to go at that problem head on, and would, of course, additionally be happy to work with you in terms of some of the ideas that you are promoting in terms of the alternative programs we are hearing about today.

Chairman BOND. Thank you very much, Senator Abraham, and thank you, Senator Lieberman. We very much appreciate your interest. I think all of us will look forward to working with you.

Now we had scheduled Senator Hutchison who is unavoidably absent today. We will include her written testimony for the record. Senator Ashcroft will testify later this morning.

[The prepared statement of Senator Hutchison follows:]

TESTIMONY OF SENATOR KAY BAILEY HUTCHISON
Before the Senate Committee on Small Business
October 19, 1995

Revitalizing America's Rural & Urban Communities

Mr. Chairman: I want to commend you for holding this hearing today. It is absolutely essential that we be made aware of problems and conditions that keep communities from developing healthy local economies so that we may consider remedies that work -- remedies based upon real incentives and sound economics.

One of the problems legislators and other public policy decision-makers face is finding out what impediments may lie in the way of their best intentions. A tax credit or other incentive may not work if other conditions are not met. I hope this hearing helps outline a context within which we can craft policies that produce results.

I long have had an interest in promoting revitalization of communities. My bill, S. 743, the "Commercial Revitalization Tax Act of 1995," is designed to provide a strong incentive to encourage private investment in economically distressed areas.

S. 743 utilizes a targeted, limited tax credit to businesses to help defray their cost of construction, expansion and renovation. The legislation builds on the empowerment zone/enterprise community program now unfolding in more than a hundred communities across the nation.

I recognize that CRTC may not be a primary reason for going forward with a commercial revitalization project, but it can be an important factor, giving a business man or woman an extra push to go forward with a project.

These credits will mitigate the inherent negative exposure in making a decision to invest in areas otherwise considered to be "high risk" because of social and economic factors.

There is an honorable history of targeted tax credits which serve a valuable public purpose. In a number of cases we have found them to have been a wise policy choice.

According to the National Park Service, the Historic Rehabilitation Tax Credit in FY 94 produced nearly 21,000 jobs, among 524 projects and leveraged \$483 million in private investment from a federal revenue cost of \$97 million.

The Low Income Housing Tax Credit has financed 700,000 new and rehabilitated housing units since 1986. The annual credit of \$320 million attracts over \$975 million in private investment per year.

The economic multiplier is significant. According to HUD figures, for every 100,000 new housing starts, 170,000 jobs are created. The National Association of Homebuilders reported that for FY 92, 92,000 units built or rehabilitated generated more than \$1.6 billion in wages and taxes.

I hope that the CRTC and similar approaches will provide a similar catalyst for revitalization of economically depressed communities. I am especially gratified that so many of my colleagues are taking an interest in this legislation.

Having said that, Mr. Chairman, I want to compliment you. I am especially pleased that the Committee is hearing testimony from former HUD Secretary Jack Kemp as the lead witness.

No witness could better set the tone and provide context to this hearing. No other public figure is as identified with the issues of enterprise zones and empowerment.

I know the Committee looks forward to hearing his testimony.

Chairman BOND. Now it is my pleasure to introduce a very good friend whose current title is co-director of Empower America, whose former titles included Secretary of Housing and Urban Development and congressman from New York, as well as quarterback, but who is best known for his championing of the cause of enterprise zones, and bringing employment and housing opportunities to the areas of greatest need. A man who really did not need as much introduction as I gave him. So, Jack, welcome. Glad to have you with us.

**STATEMENT OF THE HONORABLE JACK KEMP, CO-DIRECTOR,
EMPOWER AMERICA, WASHINGTON, D.C.**

Mr. KEMP. I loved that introduction. I was introduced one time in Buffalo, when I went to play quarterback for the Bills, as a man who needs no introduction. Then the emcee said (and that is lucky for me) I have never heard of him.

[Laughter.]

Mr. KEMP. One way or another, I guess you have heard of me. I am delighted to be here, Mr. Chairman, and call you Mr. Chairman. Senator Frist, a pleasure to be with you. I am sorry Dale Bumpers could not stay but I recognize the time constraints on every member of the U.S. Senate.

Let me just say, first of all, what a pleasure it is to hear Spence Abraham and his partner in this effort, Joe Lieberman, what a tremendous combination of that which you, Mr. Chairman, and I, among others, began to build some bridges across the political aisle—back in the 1970's and early 1980's. I just want to encourage Democrats and Republicans to put some things aside and unite on behalf of doing something to enhance the empowerment of people, or enhance enterprise zones throughout this country. I am a strong supporter of the Lieberman-Abraham, or Abraham-Lieberman approach.

The reason I do not want to give my testimony is because I think the hour is late. I think it is the eleventh hour. In fact, it is about three minutes to midnight for a lot of people. I have been holding hearings on behalf of the Dole-Gingrich Commission on Tax Reform and Economic Growth. Mr. Chairman, I have to be extremely frank today—I hope you do not mind if I say—

Chairman BOND. I would be surprised if you were not.

Mr. KEMP [continuing]. The first time I have heard jobs emanate from the mouth of the United States Congress is here today. We are talking about the budget, and we are talking about cutting spending, and we are talking about reforming Medicare, we are talking about reducing deficit. The first time I heard the word job emanate from any congressional mouth is when you and Bill Frist and Dale Bumpers and Abraham and Lieberman began to talk about it today.

The train wreck is not so much the inability to reconcile the differences between the House and the Senate over the budget. That would be a train wreck in my opinion. Nobody wants to see that happen. The real train wreck is what those 400,000 men were saying on the Mall a few days ago: that there are not enough jobs in America. We are not creating enough opportunities for people to become entrepreneurs, to become owners, to become homeowners, to

become business owners. To get jobs not only as truck drivers, but someday to own the truck and maybe start a little trucking company.

So I just want to say, I think the Finance Committee of the U.S. Senate (and I am a big fan of Chairman Roth. He and I collaborated many years ago on reducing tax rates and capital gains rates along with Ronnie Reagan and a lot of Democrats) will cause a real train wreck if we do not do something in this reconciliation bill to encourage more jobs, more growth, more small business, and more entrepreneurial opportunities, not just for black, but for black, white, brown, and yellow and Native Americans. So I just want to thank you for holding hearings.

I think we are going to make a mistake if we do not include on reconciliation an opportunity to vote up or down on the Abraham-Lieberman enhanced enterprise zone bill. I favor the Contract With America. I favor cutting capital gains rates. I would have hoped that you would index them. I think it unfair, fundamentally unfair to tax inflation.

I cannot imagine a Republican Congress, most of whom are good, old buddies of mine, and a lot of new friends like Senator Frist of Tennessee—I cannot imagine a Republican Congress or Democrats in the Congress including a cut in the capital gains rate that does not index capital gains for inflation. It is fundamentally unfair to tax inflated value of an asset. It is confiscating the capital of our country, and it is bad for the seed corn that you and I have so often talked about, Mr. Chairman, as necessary to create the next generation of jobs.

Now let me be specific about the enhanced enterprise zone bill. If we do not do something on this reconciliation, and on this tax bill coming out of the Senate Finance Committee, to include more people in the tax cut effort to grow the economy, we are going to have an economy that is further separated (Not by race—let me say parenthetically, Mr. Chairman. The Kerner Commission report is quoted ad nauseam on the left and sometimes on the right as what is the metaphor for the division in America today between black and white; separate but unequal. I do not agree. I do not agree because I do not see an America divided by race as much as I see America divided by the economy).

The macro-economy is roughly a democratic entrepreneurial capitalist economy based on private property, the rule of law, and working and saving, investing, family, marriage, children, and an opportunity to climb the ladder that we euphemistically call the American dream—but what is certainly a universal dream. It is what Nelson Mandela is talking about in Africa, and what Asians talk about, and what Russians are now talking about. It is the zeitgeist for the whole world.

The problem, Mr. Chairman, is the macro-economy roughly performs up to our expectations. I can think of a lot of changes I would make, and that is why I am heading up this tax commission for Dole and Gingrich, which plans to make recommendations by early December. But here is the problem of the urban economy, which you and Senators Lieberman and Abraham have been addressing, much to your credit. I am just here to say, do not give up. Retain that indefatigable spirit for which you were known in Missouri.

In the inner-city economy and in some parts of rural America you have got a socialist, Third World, Eastern European economy. Socialism did not work in Eastern Europe. It will not work in urban America. There is no private property, only public housing. There is no chance to own, no chance to get access to credit and capital. I did not quote Bobby Kennedy but I will finish by quoting Jesse Jackson. He said one time that capitalism without capital is nothing but an ism. In other words, it is an abstraction.

We say we are for capitalism sweeping the earth, democratic capitalism, but there is no capital in the inner-city. The only way to get capital into urban America is to sharply, dramatically, demonstrably reduce the tax on the formation of that capital—on the jobs, on the small businessman or woman, on the entrepreneur, on the investor. With due respect to Dale Bumpers, an old friend of mine as well, the reason there is crime is because there are no jobs. I do not want to say that jobs alone will cure everything because that makes me an economic determinist. I am not one. I am pretty close to it, but I am not one. We have got to get more jobs into these areas.

I will close with my last quote which is Van Woods. Van Woods was a Black Panther in the 1960's and carried an Uzi or an AK-47 submachine. He wanted to overthrow the United States Government by force, I guess. He worked in Government poverty programs. He threw up his hands in despair, left the Black Panthers, and started his own business.

At our commission hearing in East Harlem 2 weeks ago he testified, I have 60 employees. I cannot hire any more because the cost of the payroll tax is too high. I cannot hire any more because you tax away my profits. I cannot hire any more because the cost of capital is too high and I cannot get banks to loan money. He said, you want me to hire more people in Harlem? I will—cut my tax. Give me more access to capital and credit. He wants the capital gains tax eliminated, Mr. Chairman.

The unemployment rate in Harlem among black males and Latinos, and probably white males as well (excuse me now for being gender specific here) but it is close to 80 percent. There is crime. You put men, young men and women on the street with no job, you have a recipe for social pathologies. It has nothing to do with color. It has nothing to do with climate. It has nothing to do with geography except East Harlem is owned lock, stock, and barrel by the State of New York, the city of New York, and the Federal Government. It is socialist.

If we believe in capitalism, we ought to give it a try. You and I know it will work. Some people still have to be persuaded. But I think this enhanced enterprise zone bill and a combination of a tax credit to offset the payroll tax—I hope you guys do not go too far on removing the EITC because that is a tax increase on low-income workers and the poor which is unconscionable at this time in our Nation's history even President Clinton said that he is sorry he raised taxes. Did you hear him the other night? He said he raised them too high. Do not let us make the same mistake. He said he wanted to pursue deficit reduction. I hope we do not pursue deficit reduction to the point, Mr. Chairman, of raising taxes on families and working people.

I think a good start would be to pass the enhanced enterprise zone bill and let us get rid of this capital gains nonsense forever. It is not a tax on the rich. It is a tax on the poor who want to get rich. It is a tax on the American dream. I know what you want to do is restore the American dream. But we ought to start in Harlem and East St. Louis and here in D.C. Then, as Lieberman and Abraham said, spread that enterprise zone from sea to shining sea. What a day that will be, Mr. Chairman. What a way to enter the next century, Mr. Chairman.

Chairman BOND. Thank you very much, Jack, for a very inspiring testimony. I would agree with you and President Clinton that the 1993 tax increases were too much, and I think that they have caused a slow down in growth and have caused a lack of job creation that I think is very serious. Unfortunately, the Finance Committee could not be here to hear your testimony because they are in the process of marking up its bill. We realize that the Small Business Committee does not have direct jurisdiction, but we are concerned very much about small business and its role in creating jobs in this country.

I congratulate you not only for your enterprise zone initiatives but for the Kemp-Roth approach. I would hope, and I will testify before you here in your role of looking at tax reform, I find a great deal of support right now as I listen to people in my State for a flat tax. But I hope also you will consider very carefully the Domenici-Nunn approach of using a consumption-based flat tax. I can only tell you that in my visits in those countries like Singapore and Malaysia where the Government requires you to save 30 to 40 percent—there are no carrots, there are no sticks. This is a Government directive—people are better off and the countries are growing.

The deputy prime minister of Malaysia was here. Growth the last year in Malaysia is about 9.6 percent because they have fantastic access to capital. I think that making sure that the tax code is simpler and encourages savings is the best thing we can do to create jobs.

Let me just shift though off of enterprise zones because you and I have worked on enterprise zones. You know I favor the concept.

Mr. KEMP. Do you think we will get a vote on it? Do you think we could get a vote on it as one of the—

Chairman BOND. If somebody files it. There will be hundreds of votes. Whether it will be discussed, frankly I think it is something that is probably going to have to be discussed at greater length. Anybody can offer amendments in the reconciliation process. It probably will not get a full and adequate hearing at that time. But as I said earlier today—I think—

Mr. KEMP. Could I just interrupt long enough to say that I want to announce to whatever press is here that I am going to send a letter on behalf of Empower America to Leader Dole and ask for consideration on the floor of the Senate of the Abraham-Lieberman approach. Maybe not in toto, but there ought to be an amendment to the Senate Finance bill that would allow for driving capital across the country but driving it by incentivizing the inner-cities and rural America for the formation of the capital necessary to create more jobs and some offset to the payroll tax and expensing of investment in machinery, equipment, debentures, and stock of an

enterprise zone enterprise. If we do not do this, we are going to miss an opportunity, Mr. Chairman, to do something specifically for not only those 400,000 men, but all men, women, families, and low-income people from downtown Detroit to downtown East St. Louis, where you and I went.

Chairman BOND. I would hope that you would include your recommended offsets because we have said that we are going to play by objective scoring, and unfortunately that is the only——

Mr. KEMP. No, I will not. I am not going to play the game, Mr. Chairman.

Chairman BOND. That is the only way you can get an honest deal because right now we have seen a phony deal on the table. We will discuss that outside of this——

Mr. KEMP. I would quote Spence Abraham. How do you lose revenue by cutting a tax on somebody who has never started a business yet? How do you lose revenue by cutting the capital gains tax on somebody who has never started his business or her business?

Chairman BOND. If you can guarantee that it is a totally new business and not a moved business, that is a great argument.

Let me ask you one question which is somewhat relevant to the subject today.

Mr. KEMP. It would not be a Kemp testimony without an argument.

Chairman BOND. I was going to say, just let us touch on the subject. I have talked about using the concept of the 8(a) set asides to bring jobs to any small business that locates in what we call HUBZones. Basically they would be determined by poverty or by high unemployment. You would have the Government contracts going into areas where they employ residents and they locate in a HUBZone. Have you got problems with that?

Mr. KEMP. No, I do not have problems with it as a stopgap measure, Mr. Chairman. But that is all it is. You do not really grow the economy by just redistributing the location of jobs or business. 8(a) is a set aside based on——

Chairman BOND. Race.

Mr. KEMP [continuing]. On color. Frankly, I do not particularly favor set asides based on color. You are suggesting distributing it by location. I think it would be far better——

Chairman BOND. By poverty and unemployment.

Mr. KEMP. Right, location of high unemployment. That was the enterprise zone concept. I do not want to be a purist. I am not a purist. I do believe in compromise. But I really think now is the time to strike for the whole ball of wax, go for the full Bond-Frist-Abraham-Lieberman approach. Go ahead. It is better than nothing, let me say; but I think ultimately set asides redistribute existing businesses.

We want to create new businesses on the full understanding that it is a small businessman or woman wanting to grow big that creates about 91 percent of all the new jobs in America according to David Birch at MIT. So if you really want to create a lot of jobs, get men and women to leave their existing business and take a risk to start a new business. You get the most impact economically speaking.

I just thought of an offset for my Lieberman-Abraham bill cost. Whatever it might look like statically, with somebody sitting looking at a black box and deciding that if you cut a tax you automatically lose the revenue, I will come up with my offset. Take away the tax credit for converting corn into ethanol. That would be a good start. Of all of the stupid ideas in America, that ranks up there at the top in my opinion. Take away some corporate welfare and turn it into jobs, and housing, and ownership, and entrepreneurship.

Boy, have I just offended about one-half of the——

Chairman BOND. It is a good thing you are not running in my State.

[Laughter.]

Chairman BOND. But that is all right. I appreciate what I think was a sidewise and slight endorsement of the HUBZone concept. I am sure there is something in there that I can find that was favorable.

Mr. KEMP. There may be even something in your bill that I——

Chairman BOND. I wish you well at incentivizing the development of new jobs.

Mr. KEMP. I love your approach.

Chairman BOND. We have got to get jobs in the areas of high unemployment.

Mr. KEMP. I agree. You and I agree.

Chairman BOND. It is great to create jobs nationally. We need to do it. There are areas in this country today which do not have the job opportunities, and there are pockets where there are no jobs.

Mr. KEMP. I agree.

Chairman BOND. As much as we grow jobs in this country, we have still got to get them not just created on the outskirts of the Beltway around Washington, D.C., but in the areas where there are people with no jobs.

Mr. KEMP. I agree.

Chairman BOND. With that, I will turn for a bit of rationality to my good colleague and friend, Senator Frist.

Senator FRIST. Thank you, Mr. Chairman. And thank you for your provocative comments, as usual. As head of the tax commission which you mentioned looking at tax reform appointed by Senator Dole and the Speaker, you are working hard and have worked hard to develop a comprehensive plan for a simpler tax, a broader-based tax, pro-growth tax code. Then as an advocate for the enterprise zones, clearly have championed the causes of tax incentives for impoverished communities. We have talked about capital gains.

Projecting into the future, how else do you see that this broad, flatter tax reform, as we move in that direction, will apply to enterprise zones?

Mr. KEMP. That is a good question, Senator, because as I suggested earlier in my testimony (the rational part of my testimony anyway), we someday want an enterprise zone from sea to shining sea, that includes Tennessee and Missouri. Is it Missouri (Mī-zöörē) or Missouri (Mī-zööra)?

Chairman BOND. You are right. You have got it right. You campaigned out there enough. You can tell people are from Missouri

(Mi-zōōra) or are actively soliciting votes if they call it Missouri (Mi-zōōra).

Mr. KEMP. I am not here asking—I am not running for anything, and I am not asking for anything, and I do not want anything, and I will not get anything, so let me just tell you from the heart. I believe at the end of the Cold War we have a window of opportunity to do something dramatic to show the world that we can make capitalism work in America. We need a 21st century tax code.

I put my hat on as the chairman of a broad-based commission of the near right and the far right. We all believe in center right economics. Dole and Gingrich would not have appointed Robert Reich to our commission. He is not happy that tax rates are so low on the formation of capital, so he is not on our commission.

He has got it wrong, and he will not get it right until we educate him a little bit more. I think Lieberman quoted Bob Lucas at Chicago who got the Nobel Prize because, as he said, if you lower the capital gains rate he now believes you will change economic behavior, thus get more risk-taking, and stop penalizing success, and ultimately create more jobs from which taxes are paid. That is the Bond-Kemp model, notwithstanding the fact that I argued in a friendly fashion with the HUB approach. It is better than the way it is now. That hopefully is the part of the testimony upon which you can lean for a set aside.

Chairman BOND. Thank you.

Mr. KEMP. Bill, I think we ought to stop debating capital gains taxes, at least in 1996. I hope our candidate debates the President and Robert Reich on whether there should even be the double and triple and quadruple taxation of capital as there is in America. I do not know what the rate should be, but it ought to be low. I think it ought to be a single rate. Whether it is on consumption or income, Kit, it ought to be low and it ought to be a maximum rate. There should be an exemption for the poor.

There should be some deduction, in my opinion—now not as chairman but just as a human being on this earth—I think if an employer can deduct Social Security tax, so should the employee be able to deduct it. That would lower the tax burden of the payroll tax. Thus, by cutting the cost of labor you could hire more people, because as you know, Senator Frist, part of the cost of labor is the payroll tax. In fact, for many people that is the highest part of the tax, and that is why I have always supported the EITC.

In fact, I would not take out the EITC. Excuse me, I have not gone from preaching to meddling. I would not take out the EITC until we reformed the whole tax code and achieved the simplification, fairness, low rates, and single rate that would take this country into the 21st century. But right now the EITC offsets the payroll tax, and if we take it out without any offset, you end up with a tax increase and a cost of labor that goes up.

One reason why Malaysia can create so many jobs is they have a low cost of labor. If you look at the economies of Asia, they do not tax capital gains. From Malaysia and Singapore to Hong Kong and Taiwan there is either a zero or a very low rate of taxation on the gain from investment of capital in jobs.

So I would hope that we would end this class warfare. I would say, to conclude my remarks because I know you are anxious to

move on, the capital gains tax is only in there because of envy. It is only in there because of envy. There is no economic rationale for taxing estates in a confiscatory fashion, double taxing savings, as Kit Bond pointed out earlier, and taxing capital gains. I think if an American campaign were waged on whether or not we should raise or eliminate the capital gains tax in America, I will bet you the American people overwhelmingly would vote to eliminate the tax on capital gains from any asset invested in creating new jobs.

What would that do to enterprise zones? I do not think you would have to worry about enterprise zones. The economy would be lifting all boats, and where boats are sunk on the bottom of the harbor, we would have the Bond HUB bill that would take set asides and put those into the areas.

Chairman BOND. Thank you very much, Jack. We appreciate your testimony. The votes have been delayed until after 11 o'clock so I think we will have an opportunity to move directly into panel number 4. We certainly appreciate your views, Jack.

Mr. KEMP. Thank you for your leadership, Mr. Chairman. I did not, by my tongue-in-cheek comments, mean to do anything other than to support what Kit Bond and Jack Kemp have been talking about for a long, long time. Frankly, I do not want to come up here again, Mr. Chairman. I am tired of coming to Capitol Hill and talking about enterprise zones. If we do not do it now, it ain't going to get done. So let us do the right thing.

Chairman BOND. Thank you very much, Jack.

Now we call on Mr. Paul Grogan, president of the Local Initiatives Support Corporation of Washington, Ms. Blair Forlaw, the director of policy and programming for the East-West Gateway Coordinating Council of St. Louis, Missouri, Mr. Randall C. Gideon, AIA, of KVG Gideon/Toal of Fort Worth, Texas on behalf of the American Institute of Architects, and Mr. Marc Bendick, Jr., Ph.D., principal of Bendick and Egan Economic Consultants, Inc. in Washington, D.C.

Welcome. We are delighted to have you with us, and let us begin with Mr. Grogan.

STATEMENT OF PAUL S. GROGAN, PRESIDENT, LOCAL INITIATIVES SUPPORT CORPORATION, NEW YORK, NEW YORK

Mr. GROGAN. Good morning, Mr. Chairman. My name is Paul Grogan. I am the president of the Local Initiatives Support Corporation, a national community development intermediary which funnels private capital to community revitalization efforts all over the country. We are very pleased to be asked to testify this morning and are going to offer our hearty endorsement of all the bills under consideration.

There has been some discussion this morning about the prospects of getting real capital into low-income neighborhoods across America. Our organization has done that, Mr. Chairman. We have now brought more than \$1.7 billion of private capital into communities across the country, including some of the most devastated and distressed communities in the country. So we do have something to share about why these bills really are going to make a difference.

I want to comment particularly on Senator Hutchison's proposed Community Revitalization Tax Credit. I might note that the Com-

munity Revitalization Tax Credit is self-consciously modeled on the Low-Income Housing Tax Credit which has been a dramatic success in bringing private capital into housing in distressed communities, which also creates jobs as well as offering quality, affordable shelter and stabilizing communities.

I will note just quickly in passing, again this is not the right committee, that the Low-Income Housing Tax Credit has inexplicably, in our view, been slated for termination in the House Budget Reconciliation bill. Happily, not in the Senate Budget Reconciliation bill and, Mr. Chairman, you have been a tremendous supporter of the Low-Income Housing Tax Credit as have other key members of this Committee. I would just hope that at we consider these important new measures that that irony would be removed in the final conference—

Chairman BOND. I would certainly agree with that.

Mr. GROGAN. Thank you.

Let me just say a quick word about community development corporations and their relationship to what you are considering this morning. Mr. Chairman, as you know, community development corporations are resident-led, non-profits working to revitalize inner cities. Fifteen years ago there were a handful of such groups. There are now thousands. They are one of the great success stories in our inner cities today.

You have seen firsthand the work of the Blue Hills Homes Corporation, the CDC of Kansas City, the Kansas City Neighborhood Alliance and others that have really, against daunting odds and confronting a lot of the obstacles that these bills would like to remove, still have had some enormous successes. They have done that because they are pragmatic and focused. They have resident support, and they understand the barriers to healthy business climates in their communities which include high crime, which include the presence of blight, and which include weakened residential markets that must be strengthened and stabilized. So I think there are some great insights in the work of these groups which although themselves are non-profits, are very intent on creating positive business climates in which entrepreneurs can thrive.

Two specific initiatives that LISC has underway I think might be interesting to dwell on for just a moment. One of them is called The Retail Initiative, which is our effort to bring major supermarkets back into the inner city. Major supermarkets may not themselves be small businesses, but the kind of economic magnet they represent creates an enormous economic lift in communities and all sorts of opportunities for inner city businesses.

We believe that the Community Revitalization Tax Credit would directly attack one of the problems of creating suitable sites for these supermarkets. The supermarket industry wants to return to the inner city and there have been a growing number of dramatic success stories. But the problem of assembling and clearing the sites, and getting the proper structures built in the more expensive inner-city locations is daunting. The benefits provided by the CRTC we think would unleash an already building wave of that kind of commercial revitalization.

Similarly, we are involved in a Neighborhood Franchise Project in league with several financial institutions and the International

Franchise Association to bring capital to entrepreneurs who want to expand franchises in inner cities. The bills under consideration would be directly helpful in expanding that effort.

Mr. Chairman, I would like to bring to your attention, if it has not been already, to the work of Professor Michael Porter of the Harvard Business School who recently published an article which is getting very wide attention across the country in the Harvard Business Review called *The Competitive Advantage of the Inner City*. It is a striking article because he believes that there are enormous opportunities for economic development in the inner city and he has come to this conclusion by studying the thousands of successful businesses already operating in difficult communities and by trying to understand the keys to their success.

Without going into detail about his many recommendations which, I believe, are worthy of the attention of this Committee, one of the key lacks that he sees is access to equity capital for inner city businesses. There are debt programs; they abound. Low interest loan programs offered by Government and quasi-public agencies and so forth. The Community Reinvestment Act has prodded our financial institutions to make credit available in increasing amounts. But equity capital is in a critical shortage, and I believe the proposals under review would help enormously with that.

As difficult and daunting as the problems are, Mr. Chairman, there are successes in the inner city. The restoration of the South Bronx is one of the most remarkable success stories in modern times in rejuvenation of an urban community. So in addition to dwelling on the problems, we must look at those successes, and understand what those ingredients are. I think the bills under consideration shrewdly take account of those ingredients, and LISC, which has invested as much private capital as anyone in the inner cities of America is pleased to deliver its strong support for these measures this morning.

[The prepared statement and attachment of Mr. Grogan follow:]

**Testimony of
Paul S. Grogan
President**

Local Initiatives Support Corporation

Good morning, Mr. Chairman. My name is Paul S. Grogan. I am the President of Local Initiatives Support Corporation (LISC), the nation's largest nonprofit community intermediary. I am here today to talk about how the legislation before you today -- and especially S.743, the Commercial Revitalization Tax Credit Act of 1995 -- can help nonprofit community development corporations (CDCs) rebuild distressed low-income urban and rural areas.

Right at the outset, let me observe that the CRTC is based on the highly successful Low Income Housing Tax Credit, which you, Mr. Chairman, and several other members of the Committee have strongly supported. The Housing Credit is a tax-incentive block grant that has mobilized private investment in creating over 750,000 units of rental housing for low-income families nationwide since 1987. We believe that a CRTC could be as successful a tool to stimulate desperately needed commercial revitalization in those same communities. As you know, the House Ways and Means Committee recently voted to terminate the Housing Credit at the end of 1997. I believe that would be a huge setback for the very communities we are discussing today and for the kinds of policy initiatives we are discussing.

I know, Mr. Chairman, that you are working to preserve the permanent status of the LIHTC, and we at LISC and in the community development field thank you. Let me also thank you for your outstanding leadership on behalf of CDCs, the HOME and CDBG programs, and the Community Reinvestment Act, all of which have been extremely effective and will be essential complements to the initiatives you are considering today.

LISC is a nonprofit conduit through which the private sector provides financing and support to CDCs. Over 2200 CDCs nationwide are rebuilding their neighborhoods, by building partnerships with the local government, private sector and community residents. One vehicle that has been the most successful in attracting private sector investment in these communities has been the Low Income Housing Tax Credit.

About CDCs

CDCs are a principal mechanism through which low-income community residents take responsibility for rebuilding distressed communities. As of the end of 1993, over 2200 CDCs nationwide had developed about 400,000 units of affordable housing and over 23 million square feet of commercial and industrial space. This development has been the

vehicle for CDCs to rebuild community institutions and relationships, bringing together the private sector and government to create a new sense of hope for neighborhoods which the popular press and others write off as irretrievable. CDCs are locally-based and controlled, operating in urban, rural and suburban areas. I invite you to come with us to low-income communities in Kansas City, Houston, Richmond, Hartford, Bridgeport, Newark, Detroit, Little Rock, Kalamazoo, Boston, St. Paul, as well as the mid-South Delta and other areas in rural America, or any other community where CDCs work to see this process in action. CDCs are the hidden good news about low-income communities.

CDCs succeed in so many diverse places because they embody mainstream American values. Because these values transcend partisanship, CDCs have been able to generate broad participation and are an attractive instrument of public policy. We believe CDCs have been ahead of many of the emerging changes in federal policy.

- **Self Help:** CDCs are vehicles that community residents create to take responsibility for improving their neighborhoods and enforcing pro-social behavior.
- **Community Building:** CDCs bring people together, reinforce the social fabric, and bolster community institutions from churches to little leagues. Their mission to rebuild communities physically, economically and socially transcends housing, business development, or any other single issue.
- **Local Control:** CDCs bring decision-making down to the neighborhood level, where it is closest to the people. CDCs work well with city and state officials.
- **Partnership:** CDCs are pragmatic and collaborative, not confrontational. They recognize that no single organization can revive a neighborhood alone. CDCs, government, and the private sector -- lenders, investors, property owners, developers, businesses, foundations, and others -- all contribute to and benefit from community development activities.
- **Investment:** The only long-term, sustainable way to revive low-income communities is through investment, private as well as public. A principal function of public investment is to stimulate private investment, create healthy, functioning markets, and to connect isolated, distressed communities to the economic mainstream.
- **Tangible Results:** This is perhaps the most important and distinguishing characteristic of CDCs. The visible results of community development, such as housing and retail development, are verifiable proof that community development works. Less tangible outcomes -- greater community cohesiveness, new relationships with public and private institutions, stronger community leadership, and a new sense of hope and progress -- are undeniably

important, but it is CDCs' tangible results that set them apart from many other efforts and impart credibility to claims of less visible outcomes.

About LISC

LISC was created by six corporations and the Ford Foundation 15 years ago as a nonprofit organization to enable the private sector to assist CDCs in their efforts to transform distressed neighborhoods into healthy communities. LISC operates with the convictions that: community regeneration must come from within the community itself; that government at all levels, the private sector, and community residents all have critical roles to play and must work together as active partners; and that CDCs are the most effective agents for fighting poverty in the most distressed communities in the United States.

Our first name is "Local." We are a constellation of 35 local programs nationwide, a list of which is appended to my testimony, and have become the nation's largest private, nonprofit community development intermediary. Funds raised locally are matched by national LISC on a formula basis. Each LISC area is served by local staff and governed by a local advisory committee which recommends CDC projects for funding to LISC's national Board of Directors. I invite you to join us on November 1 in announcing a new Rural LISC program to invest \$100 million through 68 rural CDCs in rural areas nationwide.

We believe that engaging the private sector is essential to the community development process. Private involvement is not a substitute for governmental funding, and public funds are necessary to make private investment feasible. But community development requires that isolated neighborhoods join the economic mainstream; public funds alone will always be insufficient unless they stimulate private investment; the rigor of business discipline is fundamental to effect project development; and business leaders' endorsement increases the stature of CDCs. Not only is the active involvement of the private sector necessary to community development, but business leaders genuinely want to participate. It is our job -- and, we would assert that it is the government's job as well -- to create opportunities for them to do so. That is why we are so excited about the legislation before you today.

Our primary focus has been to build the financial and technical capacity of CDCs to sponsor housing and commercial development projects. We provide technical assistance and project financing to CDCs: grants, loans, recoverable grants, equity investments and loan guarantees for project development, operating support, and up-front redevelopment costs. Since 1979, LISC has provided over \$1.7 billion in grants, loans and equity investments to over 1300 CDCs nationwide. These funds have, in turn, leveraged an additional \$2.9 billion in financing to build or rehabilitate 57,635 homes and apartment and create 9.6 million square feet of commercial and industrial space. To support these activities, LISC has established three affiliates: The National Equity Fund, which raises equity investment capital based on the Low-Income Housing Tax Credit; Local Initiatives

Managed Assets Corporation, which buys loans from nonprofit community development financial institutions; and The Retail Initiative, which raises equity investment capital for inner-city supermarkets and shopping centers.

LISC's support is often the first money committed to a project, helping CDCs to leverage additional private and public resources and adding credibility to the project. It is equally important for strengthening emerging CDCs and creating new organizations and leadership. For example, LISC, along with The Enterprise Foundation, administers the funds of the National Community Development Initiative (NCDI), under which eight private funders originally provided \$62.5 million in grants and loans to assist CDCs in developing 4,400 affordable new homes. A second phase of NCDI is unfolding over a three-year period. In 1993 the Congress authorized and appropriated \$20 million for the U.S. Department of Housing and Urban Development to contribute for this second phase. This modest federal participation has attracted \$67.65 million in grants and low-interest loans from 10 national foundations and corporations as match for the federal funds. LISC is passing every federal grant dollar through to CDCs, primarily for capacity building activities. We expect these nationally raised funds to generate at least another \$660 million in project financing, a remarkably effective use of federal funds.

LISC's Jobs and Income Initiatives

Pursuant to our new strategic plan LISC has launched a series of Jobs and Income initiatives. These initiatives recognize that expanding employment, incomes and services is essential to making low-income areas better, more stable places to raise families and do business. They also reflect our experience that business will be much more receptive to low-income areas -- and have a much better chance to succeed there -- as part of a broad, concerted rebuilding effort led by area residents.

Few businesses will invest in an area that appears blighted and unsafe, regardless of the incentives offered. A project which is part of a comprehensive revitalization plan is likely to be more successful because it will be supported by the economic activity created by a critical mass of development. Even more importantly, our experience working with CDCs has demonstrated to us that the most successful community development strategies are those developed and implemented by the community residents themselves. Their goal is long-term, comprehensive community development. Projects that are a part of such a grassroots strategy are more likely to be both successful and sustainable. Through housing development and other tangible progress, CDCs have signaled that their neighborhoods are open for business. Economic development is more than the rehabilitation of commercial property and the creation of jobs. For those communities, it means generating an environment in which economic activity thrives, including the normal functioning of the market and the presence and participation of economic institutions like banks. In short, economic development requires changing the economic behavior of area residents and outsiders

Three of these Jobs and Income initiatives support entrepreneurship and small business, either directly or indirectly: The Retail Initiative, the Neighborhood Franchise Project and the National Main Street Program. These programs reflect our recognition that creating opportunities for small businesses to develop is an essential component of economic development in any community.

The Retail Initiative (TRI) is LISC's equity fund for supermarket-anchored retail development. Like the National Equity Fund, which pools corporate investment in low-income rental housing, TRI is a vehicle for corporate investment in commercial development at the neighborhood level. In its first venture, TRI raised \$24 million from corporate sources, including Prudential Insurance Company, the Philadelphia Board of Pensions, Bank of America, First Interstate Bankcorp, General Electric Capital Corporation, J.P. Morgan & Company, Metropolitan Life Insurance Company, Bankers Trust, Great Western Bank and Home Savings of America. This equity will be invested in ten to twelve CDC-sponsored supermarket projects nationwide. These supermarkets not only help meet the needs of low-income communities for affordable high-quality food, but also become magnets for a wide variety of other economic opportunities for many entrepreneurs from the neighborhoods. TRI has just approved its first investment in a Pathmark store on 125th Street in Harlem, sponsored by the Abyssinian Development Corporation, a church-sponsored CDC. Ancillary small businesses will be integral to the project anchored by the supermarket, providing jobs and services to neighborhood residents as well as opportunities for neighborhood entrepreneurs.

The Neighborhood Franchise Project (NFP) is a newly developed LISC initiative which seeks to form and finance neighborhood businesses within CDC communities. Strategies for the development of viable neighborhood enterprises is much in demand, without which undercapitalized and poorly managed enterprises will continue to dominate the landscape in low-income communities. Franchises offer to entrepreneurs a proven support system of training, management, inventory control, advertising, and quality control. Through NFP, LISC has developed relationships with the top-ranked national franchiser organizations, as well as with industry consultants with expertise in areas such as franchise contacts, financing and legal issues, and have become familiar with the financing structures required for entrepreneurs to launch new businesses. In each community in which NFP is operating, LISC is identifying a local financing partner to participate in facilitating a franchise development strategy. LISC will make capital available to be lent or invested as equity in franchise businesses and towards ancillary investments in commercial real estate. The NFP will provide capital and support through CDCs for neighborhood entrepreneurs to link up with the opportunities available through national franchises.

A third component of our Jobs and Income program is the National Main Street Strategy. In this program, LISC is working with an arm of the National Trust for Historic Preservation, which has developed a strategy for the redevelopment of local shopping corridors. This strategy have proven effective in rural towns. Our objective is to apply the same principles to urban neighborhoods through CDCs. Redevelopment of these retail corridors will greatly enhance the quality of life in communities where physical decline and

poorly run businesses detract from the economic potential of these commercial centers. Under the National Main Street Strategy, LISC and its partner, the National Main Street Center, will commence a four year revitalization effort in several low-income communities. The program will include physical improvements, organization building, economic restructuring, and promotional work in an intensive rebuilding effort tailored to the needs of each neighborhood.

Each of these three programs in our Jobs and Income strategy is designed to meet the needs of neighborhood entrepreneurs and small businesses in the economic revitalization of low-income neighborhoods. Because of our experience working with CDCs, we know that the efforts of grassroots organizations can make a tremendous difference to their communities. The federal government can best support these efforts by creating vehicles to enable commercial development to attract capital. In the same way that the Low Income Housing Tax Credit made large scale investment possible for rental housing, the Commercial Revitalization Tax Credit can be such a vehicle.

The Need for Investment in Distressed Communities

There is a desperate need for business investment in distressed communities. Even for those communities which have undergone tremendous revitalization, primarily through the development of affordable housing, there is a dearth of goods and services. The South Bronx is a prime example. A tour reveals that the burnt-out landscape of fifteen years ago has been replaced by blocks after block of affordable housing, much of it sponsored by community-based organizations. However, there is no supermarket, and virtually no other retail in the neighborhood to serve residents. There is a need for business investment, not just for physical revitalization, but for the goods and services that those businesses provide. And in many revitalized communities, there is unmet demand. Currently, residents' purchasing power is being directed out of the community rather than recycled into neighborhood businesses, where it could create jobs and spur further investment.

Distressed communities offer untapped potential for economic development. Professor Michael Porter, in his recent Harvard Business Review article, "The Competitive Advantage Of The Inner City," talks about identifying the unique potential competitive advantages of inner city-based companies and how government support should focus upon four objectives:

1. Directing resources to the areas of greatest need.
2. Increasing the economic value of the inner city as a business location.
3. Delivering economic development programs through private sector institutions; and

4. Aligning incentives built into government programs with true economic performance.

The proposed CRTC, HUBZones and EEZ programs meet all four of these objectives.

The Community Revitalization Tax Credit (CRTC)

We strongly support S. 743, and congratulate Senator Hutchison for her leadership in introducing it. While a financing architecture for the development of housing in low- and moderate-income communities has evolved over the last 15 years, there has not been a similar structure to support economic development in those communities.

There are several aspects of the Commercial Revitalization Tax Credit proposal which will make it a successful tool for stimulating neighborhood economic development.

First, it is a tool targeted to those communities which need it the most. Only those projects which are located in a low-income area pursuing a concerted revitalization strategy, including Empowerment Zones and Enterprise Communities, can receive the CRTC. Targeting the scarce CRTC resources ensures that they will be used in those communities in which they are needed the most, and which can leverage other resources targeted for economic development in low- and moderate- income areas.

We also support the way S.743 uses a tax incentive approach. While tax incentives and direct spending programs can achieve some of the same objectives, they are not interchangeable. The private sector role tends to be greater when tax incentives are the policy instrument. A primary attraction of the CRTC is that the private sector and the government jointly choose projects. The Congress sets the basic policy parameters. Each state will select individual projects according to its own priorities. But the private sector is a full partner, because it must be willing to put real investment at risk in each project. S.743 harnesses entrepreneurial capitalism and rigorous business discipline to accomplish an important public policy goal. Private investors tend to shy away from projects which are primarily supported by direct government spending programs but respond well to tax incentives because they involve (or are perceived to involve) less bureaucracy and red tape. In addition, tax incentives can be structured on a pay-for-performance basis. If public benefits are not sustained, tax subsidies can be recaptured through the Internal Revenue Service. Finally, because the CRTC's tax incentives stimulate equity investment and are subject to recapture if projects fail, owners have a much greater stake in the project's success. This means investments will be chosen carefully and protected aggressively.

The success of tax incentives for development in low- and moderate-income communities has been proven through the Low-Income Housing Tax Credit and the Historic Preservation Tax Credit. The Housing Credit is now responsible for about one-half of all multi-family housing starts and virtually all new affordable multi-family housing. We at

LISC have used the LIHTC to attract \$1.2 billion in corporate equity investment in housing sponsored by community development corporations. LISC's National Equity Fund has generated more investment based on the LIHTC than any other organization even though we invest exclusively in housing sponsored by CDCs in local LISC program areas.

The CRTC is a capital investment incentive, not an ongoing operating subsidy for business. In our judgment, this is a crucial distinction. A business dependent upon ongoing subsidy is structurally unsound and will fail when the subsidy is withdrawn. And since, government cannot afford to provide long-term operating subsidy, but capital incentive is a one-time investment in putting a business in a position to succeed in an ongoing basis, CRTC is the correct kind of incentive to stimulate business investment in these revitalizing low- and moderate-income communities.

We support the structuring of the CRTC so as to provide a choice between a one-time 20% credit or ten years of credits at 5% each year depending on what will best suit each business's needs. These credit amounts are about one-half of the Housing Credit amounts. Nevertheless, we believe they are about right for commercial revitalization: large enough to make a real difference in investment decisions, but modest enough not to be the sole motivation for investment. It is clear that the CRTC will work only for projects that make fundamental business sense but need some additional initial capital to put them over the top.

The proposed CRTC also helps address the great unmet need for equity investment. Under-capitalization is a big problem for small businesses, especially for those located in distressed low-income areas. Projects in low-income areas are inherently limited in their ability to carry debt. As a result, we expect the proposed CRTC to attract equity investment through two primary mechanisms. Business owners, including franchisees, or manufacturers, can use the credits directly against their own taxes. Second, outside investors could invest in qualifying projects through TRI or a similar pro-social investment partnership. We agree with Senator Hutchison to encourage the widest possible range of investment vehicles, including proprietorships, closely held and publicly traded corporations, partnerships, and limited liability corporations. Indeed, we hope the CRTC will spark innovative investment instruments. However, we do not expect the CRTC to ignite a tax-shelter investment market for high-income individuals, since there is no tradition of such tax shelter investment in low-income area economic development and because of general restrictions on tax shelters within the tax code.

In conclusion, we believe that the CRTC is a bold and innovative idea, with potential for tremendous success.

HUBZones and EEZs

We also support two other initiatives which have been proposed by members of this Committee which would support commercial development in revitalizing communities. The Historically Underutilized Business Zones (HUBZones) proposal by Chairman Bond could be an important tool for utilizing contracting opportunities for small businesses in economically distressed communities. This legislation builds upon the strategy of creating incentives for investments in distressed communities. Those investors who undertake physical development, as well as provide job opportunities in distressed communities, should be able to leverage that investment by accessing opportunities to bid upon government contract set-asides. We strongly support the targeting of this opportunity to businesses in distressed communities, as measured by the area median household income and unemployment.

Similarly, we support the Enhanced Enterprise Zone proposal by Senators Abraham and Lieberman. LISC offices, and the CDCs with whom we work, were part of the application and planning processes in many of the designated EZs and ECs. LISC and NEF commitments to CDC projects are part of the private resources which were pledged in order to leverage the EZ/EC benefits and are currently part of ten of the urban Empowerment Zones and Enhanced Enterprise Communities which were designated. However, the EZ/EC resources are limited and none of the current EZ tax incentives is designed to raise equity investment capital. While the current program is a start, further tax incentives and grants as proposed by Senators Abraham and Lieberman are needed to support the development of businesses and the creation of jobs in the EZ/EC cities and rural areas.

Conclusion

The challenge of raising capital and maintaining cash flow exists for small businesses everywhere, and is an even greater challenge for those located in distressed communities. The CRTC proposal, along with the Enhanced Enterprise Zones Act and the HUBZones proposal will provide desperately needed capital for those businesses which need it the most, and in those communities which need it the most. Most significant, they reflect a welcome focus for federal policy of stimulating business investment to revitalize low income areas.

We appreciate this opportunity to submit our views to the Committee, and would be happy to answer any questions you might have.

35 LISC Program Areas

Baton Rouge
Bay Area
Boston
Chicago
Cleveland
Connecticut Multi Cities
Detroit
Hartford
Houston
Indiana Statewide
Northwest Indiana
Indianapolis
Kalamazoo
Kansas City
Little Rock
Las Vegas
Los Angeles
Miami
Michigan Multi-Cities
Milwaukee
Mid South Delta
Monongahela Valley
New Orleans
New York City
Newark
Palm Beach County
Philadelphia
Phoenix
Puget Sound
Rhode Island
Richmond
San Diego
St. Paul
Toledo
Washington DC

Chairman BOND. Thank you very much, Mr. Grogan. As I would say to all our witnesses, your full testimony is going to be submitted for the record and we will accept that automatically. We also will leave the record open for further questions from members who are tied up with other committee hearings going on and the mark-up in the Finance Committee.

But now it is my pleasure to turn to Ms. Forlaw.

STATEMENT OF BLAIR FORLAW, DIRECTOR OF POLICY AND PROGRAMMING, EAST-WEST GATEWAY COORDINATING COUNCIL, ST. LOUIS, MISSOURI

Ms. FORLAW. Thank you very much. Thank you for the opportunity to come before you today. My name is Blair Forlaw and I am the director of policy and programming for the East-West Gateway Coordinating Council which is the regional council of governments in the metropolitan planning organization for the bi-state St. Louis area. I am going to have to apologize to you, Mr. Chairman, I am going to say Missouri later in my testimony, but we tolerate that kind of diversity in our State I guess.

It has been our role to promote and advance intergovernmental cooperation and public-private partnerships in the St. Louis area, and most notably over the last 30 years we have been actively involved in working with local governments, State Government, and the private sector in developing short and long range transportation plans.

In recent years, encouraged by the policies of the Intermodal Surface Transportation Efficiency Act and also our own understanding of emerging metropolitan issues, we have begun to look more closely at the role of our transportation system in promoting and advancing economic goals as well as social and environmental goals in the region. We realize that past transportation planning practice has favored more rapidly growing areas of our region and has not done a good job of serving the economic vitality of our inner city or our rural communities, nor is the transportation system now doing a good job in helping residents of these communities access employment and other opportunities.

As we have looked more carefully in the development of our 20-year transportation plan at our inner city communities in the St. Louis area and talked to residents of these communities one message keeps coming back to us time and again. I would like to emphasize this message to you. That is that economic revitalization is not just about economic development. It is about a whole package, concerted package of targeted strategies on the part of the many systems in a metropolitan area that impact jobs. That includes business and industry, economic development, transportation, community development, human services, and many other systems.

In St. Louis we are looking forward to having the opportunity to test out what a concerted, region-wide economic revitalization plan might look like. Earlier this year at the invitation of the Annie E. Casey Foundation East-West Gateway convened a group of 20 representatives of major systems of the St. Louis metropolitan area. It has been our charge to design a collaborative and sustained approach. We have made a commitment, Mr. Chairman, to work to-

gether for 8 years. We do not know if we will live through it, but we have made that commitment to work together for 8 years to consider ways in which we might package investments from all these many systems, human services, transportation, economic development, public and private, to really make a difference in our inner city areas.

Among the groups who are a part of our collaborative are four State agencies, including the office of Missouri treasurer Bob Holden, also the Greater St. Louis Economic Development Council, our major private sector group, the Urban League of Metropolitan St. Louis, three universities, the St. Louis Community College, and numerous grass roots organizations.

We are going to invest private moneys developed by the Casey Foundation and by our own partners. We are also going to leverage Federal moneys and other public opportunities as we are able to, invest them in innovative jobs projects, building on some that already exist, replicating some others that Mr. Grogan can tell us more about, and really test the effectiveness of these projects in helping systems work better and leverage our investments better together.

With that as background about where we are coming from, we also would like to applaud the efforts of this Committee and the senators who present programs today. There was a phrase in Senator Hutchison's bill that I think I would particularly like to reinforce, and that is that these bills are not panaceas but they will provide important tools for us at the local metropolitan and State level to make some important things happen. We certainly would welcome and embrace them in that way in the St. Louis area.

I would, however, like to emphasize three points very briefly from our own experience which we feel are important as pertains to these bills and other efforts. First of all, the geographic limits to poverty, concentrated poverty and economic despair are no longer confined to the city limits. They have spilled over in many areas like Kansas City and St. Louis and others into older suburban areas, many of which have no comprehensive economic development plan in which to use these tools and many of which are less well-equipped perhaps than larger cities to deal with these issues.

We favor proposals that focus not so much on cities but that focus on criteria that expand beyond political boundaries and really assess where the areas of concentrated poverty are. I believe your HUBZone criteria, as I understand them, looks at the relationship between unemployment and poverty in a zone in relationship to the larger metropolitan economy. We feel that is a good and positive approach to take. We are working with our colleagues at the National Association of Regional Council and the Association of Metropolitan Planning Organizations to try to understand better how regional approaches to concentrated core community poverty can be taken.

Second, economies are regional and although we would agree that it is critically important that we do everything we can to bring jobs and capital back into inner city communities, nonetheless, in the near future job growth in many metropolitan areas will continue to favor the suburbs. As a short term gap, not as a substitute but as an interim measure, we feel that it is important also to put

some money and some incentives for employers into programs that can help workers access suburban jobs and bring those paychecks back into inner city communities.

Lastly, to emphasize a point that was made earlier this morning, the employers who we talk to say that they are looking for more of an interchange with the community. Crime rates are very important. Poorly maintained infrastructure in many of our inner cities which cannot support business and the needs of business is critically important. We are going to need to work together to address those problems as part of a comprehensive package in which the types of incentives that you are talking about today can work, but without which we believe they cannot work.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Forlaw follows:]

**TESTIMONY TO THE SENATE COMMITTEE ON SMALL BUSINESS
REGARDING "REVITALIZING AMERICA'S RURAL AND URBAN COMMUNITIES"**

by Blair Forlaw

Director of Policy and Programming, East-West Gateway Coordinating Council

October 19, 1995

Chairman Bond and members of the Committee, thank you for the opportunity to appear before you today to provide comment regarding the revitalization of America's rural and urban communities. My name is Blair Forlaw and I am the Director of Policy and Programming for the East-West Gateway Coordinating Council. East-West Gateway is the regional council of governments and the metropolitan planning organization for the St. Louis area, which includes the City of St. Louis, four adjoining counties in Missouri, and three counties in Illinois.

It has been our role to promote and advance intergovernmental and public-private cooperation in addressing problems and exploiting opportunities facing the St. Louis metropolitan area since East-West Gateway was created by our member local governments in 1965. Most notably, we have worked in concert with state and local governments and business leaders to develop short and long-range transportation plans, understanding in the broadest sense that our transportation infrastructure is of fundamental importance to St. Louis' economy.

In recent years, encouraged by the policies put forward in the Intermodal Surface Transportation Efficiency Act and our own awareness of emerging metropolitan issues, we have focused our attention more carefully on the role that the transportation system plays in supporting the region's economic, social, and environmental goals. Past transportation planning practice has been more attentive to high growth areas of our region. We find that the system is not now performing as well as it might in supporting the economic vitality of the inner, core communities and the free-standing, rural communities of our region. Nor does it effectively support the ability of residents of these communities to access employment and other opportunities. In the St. Louis region, as in many metropolitan areas around the country, it is these urban and rural communities that are experiencing population and employment loss -- or, at best, stagnation -- and we are seeing increasing levels of economic disparity between these areas and the rest of the metropolitan area as a whole.

As we have looked carefully at these communities in the St. Louis region and talked with community residents and local elected officials, the most important point that comes back to us time and again is that economic revitalization is not just about economic development. It is about a concerted effort of targeted investment and improvement on the part of the multiple systems that impact business, communities, and workers. This means both traditional and innovative economic development strategies, as well as better workforce development, community development, coordinated human services, and transportation.

In the St. Louis region, we are looking forward to the opportunity to test what a comprehensive, coordinated, regional approach to economic revitalization might look like. At the invitation of the Annie E. Casey Foundation earlier this year, East-West Gateway convened a group of 20 public and private sector entities representing the major jobs-related systems of the region:

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business and industry, economic development, education, transportation, human services, and others. It was our charge to design a collaborative and sustained process to improve the way in which the regional labor market works for employers who need a better pool of workers, workers from disadvantaged neighborhoods who need better jobs -- jobs that can support a family -- and for communities that have lost out in the shifting metropolitan landscape of opportunity of the past 40 years. Among the groups who have worked together to propose this "St. Louis Regional Jobs Initiative" are four state agencies and the office of the Missouri State Treasurer, city and county government, the Greater St. Louis Economic Development Council, three universities, the St. Louis Community College, the Urban League of Metropolitan St. Louis, and several grass roots organizations.

We have made a commitment to work together for eight years to forge new, effective connections between business and industry, education and training, community and economic development, government, human services, and transportation. We will invest privately-developed funds and leverage public monies and incentives, as we are able to, in innovative projects that combine the best strategies from economic development, human services, workforce development, community development, and transportation to connect young adults from disadvantaged urban communities of the St. Louis region to the regional economy. These projects will build on the promising starts that exist in a number of areas of the region, and they will also include new initiatives. We will evaluate the performance of these projects, improve them, and use the lessons learned from them as the basis for crafting a new regional jobs policy agenda. This is about "economic revitalization" in the broadest sense, and we expect to make a difference.

This has not been an easy coalition of interests to build. There has not always been the incentive to work together that now exists in the face of declining resources, and old habits die hard. Also, institutionally, many of us have a history of miscommunication --sometimes no communication -- and turf-protecting that does not become us. But I believe that there are at least two reasons why the players in the St. Louis collaborative have come to the table and stayed at the table, and why we can expect to succeed at the task we have before us. First, we share an understanding that the fragmented policies and practices and the splintered projects of the past -- both geographically and systematically disjointed -- are not working well in the rapidly changing global economy and we must change the way in which we do business if we really want to see results.

Second, there is some healthy, enlightened self-interest at play. Our colleagues at the Missouri Department of Social Services, for example, intend to move the individuals they serve from welfare to work, and they realize that they cannot do it if the jobs aren't there for them and the transportation system isn't there to connect them. Our colleagues at the Greater St. Louis Economic Development Council have launched a campaign to grow the regional economy by

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100,000 jobs, and they know they can't do it unless the region can demonstrate to business that we can supply them with an appropriately-trained labor pool with access to dependable childcare and the other supports that enable workers to be reliable and productive. Our colleagues at the Urban League want to see safety, integrity, and vitality restored to the neighborhoods they serve, and they know it won't happen unless workers have better access to living-wage jobs and are bringing good paychecks home every week. My associates and I at the East-West Gateway Coordinating Council want to see the transportation system work better for disadvantaged communities and the residents who live in them, but we know we can't improve that performance except by working closely with local and regional economic and workforce development interests. There are other examples, but the point is that it is unlikely that any sustainable solutions to the economic distress of our urban and rural communities can be developed and implemented in isolation. It is in the *regional* context that these many public and private agendas converge and where we try to make sense of them for the benefit of commonly-held local goals and objectives. In St. Louis, the Regional Jobs Initiative is envisioned as the nexus for that to happen more effectively than it has in the past.

With that as background, we would like to applaud the authors of the proposals that have been made today for your attention to the needs of our distressed inner cities and rural areas and for your commitment to go beyond what the Empowerment Zone / Enterprise Community program has done to further encourage economic revitalization through enhanced contracting opportunities, incentives for business location and growth, and through regulatory relief in distressed communities. Senator Hutchison's observations pertain perhaps to all these bills: they are not "panaceas," but they will all be important tools for states, metropolitan areas, and localities to use as part of a comprehensive economic development strategy. We would certainly view them that way in St. Louis.

Having said that, however, we would like to emphasize three key points from our own experience that relate to the collective impact of these particular approaches in restoring commercial and economic vitality to disadvantaged communities.

1. The geographic limits to concentrated poverty and economic despair are no longer confined to municipal or township boundaries, but have spilled over into older, adjacent suburban areas, many of which have no comprehensive economic development plans and are less well prepared to address these problems than are larger cities. The maps prepared by Senator Bond's staff of census tracts that qualify for HUBZone designation provide a good example of this. In the St. Louis metropolitan area, 58 tracts in the City of St. Louis meet the criteria of having at least 50 percent of households with incomes of less than 60 percent of the average mean gross income in the standard metropolitan statistical area. But so do six tracts in adjacent St. Louis County, 19 tracts in St. Clair County, Illinois and six tracts in Madison County. We know this area well: the impact community we

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will be targeting through the St. Louis Regional Jobs Initiative is contained within these tracts. It is largely one area of concentrated poverty in which geopolitical boundaries are largely artificial impediments to improvement. Programs that target cities, *per se*, will be less effective than those that target contiguous areas of concentrated distress that may -- and increasingly do -- cross jurisdictional boundaries within a metropolitan area. Regional councils of government and regional planning commissions can play an important role in providing this broader, multi-jurisdictional framework.

2. Economies are regional, and, while the relocation and expansion of business within economically distressed urban and rural communities is of critical importance to overall regional vitality, job growth in many metropolitan areas is likely to continue to favor the suburbs. In St. Louis, for example, 93 percent of the job growth between 1970 and 1990 was in the Interstate 270 corridor -- our outerbelt -- and beyond. Our freestanding rural communities have not participated in this growth, however.

Many of these new suburban jobs are jobs that residents of distressed urban and rural neighborhoods *could* access, with appropriate job placement and transportation services available to them. In St. Louis, we are working closely with the Missouri Department of Social Services and four job training and placement programs to design, implement, and evaluate a program to test the effectiveness of suburban job placement and targeted commute services in getting welfare recipients successfully into the workforce. This project, which we believe will inform and improve our welfare reform initiatives, will be a part of a national demonstration called "Bridges to Work," that is being coordinated by Public / Private Ventures of Philadelphia. These strategies to bring people to jobs will not substitute for strategies to bring jobs to people, but they also are an important part of the revitalization of our urban and rural communities, especially in the short term. We need incentives for suburban employers to recruit and hire inner city workers.

3. And lastly, the employers we talk to are looking for more of an interchange with the community. The stimulus of tax incentives and other programs such as those being discussed at this hearing are important, but we know, as you do, that they cannot attract and retain employers in any location that is crime-ridden, poorly served by poorly-maintained infrastructure, and inaccessible to a trained and qualified workforce. It is not the purpose of this committee to take on the broader social and environmental barriers to economic revitalization. Nonetheless, these can make or break a program. The realities all converge at the metropolitan level, where we work with states, localities, the business community, and neighborhood residents to package holistic and innovative solutions -- using the tools traditionally at our disposal as well as any new ones that we can craft and that you make available to us.

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We urge you to continue to be aware of this dynamic and to watch with interest and support in any way that you can the several exciting "experiments" that attempt to address these issues from a more comprehensive vantage point. That includes both programs in which government has taken a lead, such as the Empowerment Zone / Enterprise Community initiative, and those in which the private sector has taken a lead, such as the Regional Jobs Initiative. From our perspective, the longer-term goals of poverty alleviation and restored economic vitality expressed in the programs under consideration today will be *advanced* by the coordinated implementation of these programs, but they cannot be *achieved* except in the context of more comprehensive, regional approaches.

Thank you, Mr. Chairman, for having given me the opportunity to present these views.

Chairman BOND. Thank you very much, Ms. Forlaw.
Mr. Gideon?

Senator WARNER. Mr. Chairman, may I ask just one question?
Senator Hutchison is due to still come.

Chairman BOND. Senator Hutchison had an emergency health problem early this morning, and we do not know whether she is going to be able to be here. I might welcome the distinguished senators from Virginia and Massachusetts and tell them that we are hoping to get the testimony of the witnesses in and some questions before there is a vote. We will be checking to find out when the vote is because we have held these witnesses, but we hope there will be time for both opening statements and questions from both of my colleagues.

Senator WARNER. I just want to indicate to Senator Hutchison that I want to become a cosponsor of her bill. I think it helps the general thrust of Senator Dole's bill for the family farm, all these measures which we have worked on under your leadership and this Committee are very helpful steps.

Chairman BOND. Thank you very much, Senator Warner. We will convey that message.

Now, Mr. Gideon.

STATEMENT OF RANDALL C. GIDEON, AIA, KVG GIDEON/TOAL, INCORPORATED, FORT WORTH, TEXAS, ON BEHALF OF THE AMERICAN INSTITUTE OF ARCHITECTS

Mr. GIDEON. I would like to thank Senator Warner for that and thank this Committee, Mr. Chairman, for allowing us to give testimony today. The AIA certainly congratulates you on this important hearing to explore ways to help economically distressed neighborhoods attract and retain business investment.

I am not only here representing architects, but architects that work primarily in commercial revitalization and helping distressed communities. My testimony offers comments on community-based revitalization as well as several related legislative measures including your proposal, Mr. Chairman, on HUBZones, S. 743 introduced by Senator Hutchison, and S. 1252 sponsored by Senators Abraham and Lieberman. The AIA applauds these senators' foresight and leadership in introducing these much needed initiatives and will lend all of our support to these.

Architects have an intimate relationship with all aspects of the built environment and particularly involved in making communities more livable. The AIA believes successful community revitalization rests on several principles that coincide with the reform goals of this Congress.

First, neighborhood rebuilding is a local enterprise. Second, successful revitalization programs go hand in hand with a full public participation process. Third, communities need to develop strategic plans and map out a course to long term prosperity. Fourth, resources should be coordinated and efficient, piecemeal approaches do not succeed in the communities that we have worked in.

Fifth, acknowledge it will take time to turn things around and not give up too soon. Sixth, the localities need flexibility to experiment in how they are approaching their own problems. Seventh, the physical aspects of the economic distress must be addressed to-

tally. This means careful attention in areas of image, design, and function of the communities to be sure they work for the long term. The AIA believes these principles should be fully taken into account as you examine the issue of neighborhood and community revitalization.

We would like to emphasize S. 743, the Commercial Revitalization Tax Credit Act. The legislation is designed to encourage business investment or reinvestment in physical structures located in economically depressed areas. Similar credits for housing and historic preservation purposes already exist. S. 743 would fill a gap in the incentives for the revitalization of commercial infrastructure. It is a gap we have identified over and over again where projects have tried to get off the ground and did not qualify or could not snag one of the other tax incentives. We urge the members of this Committee to join with Senator Hutchison and the other cosponsors endorsing this bill and we thank Senator Warner for lending his support.

S. 743 would offer a choice between two tax credits to be used against previous or future tax obligations. Available credits would total \$1.5 billion over 5 years and be allocated directly to States, most likely according to population. The State would have the freedom to customize their own programs which lends that flexibility aspect you heard just a few minutes ago.

Businesses eligible for the commercial tax credit could be located in any revitalization area established by Federal, State or local law. It is important to note that S. 743 is designed to reward success. No credit could be taken unless the business is generating taxable revenue; that is, it is a growing business creating jobs, which has been mentioned over and over again today and we think is vitally important to the ultimate success of any project in a revitalization area.

Based on the economic return figures of similar credits, the low-income housing tax credits for example, S. 743 has significant potential for stimulating investment. The low-income housing tax credit program generates \$2.8 billion a year in wages and salaries, and \$1.3 billion in tax revenues, and 110,000 jobs. In fiscal year 1994, the historic rehab tax credit generated \$483 million in private funds and created 21,000 jobs. We see this every day in our communities where we are working with projects and trying to get building product back into useful existence.

My firm is engaged with the city of Fort Worth in its private sector in implementing the city's strategic plan for its central business district. It is an ambitious yet down to earth plan that combines vision with a realistic view of what is needed to make it happen. It builds on the community's wonderful historic assets, its institutions, and its optimistic outlook. We know the business community needs to offset the substantial risk associated with investment in areas they have previously fled. These tax incentives provide this offset, trading a reduction in cost for the risk of the enterprise.

The historic rehab tax credit has enabled us to have some valuable historic properties in distressed areas, and save them and make them important contributor to their respective communities. This is very important to every community in maintaining its fabric in the inner city. The low-income housing tax credit has enabled

Fort Worth to provide badly needed housing for those who wish to live and work there, particularly in the central business district. Our housing implementation plan for Fort Worth central business district includes several hundred low mod income units in the first phase of a nearly 900-unit complex of which the tax credits are a very important component in making the thing happen.

An effective capital base incentive for non-historic commercial projects in targeted areas is a missing piece of the incentive package that must be available to reduce the risk of investment. S. 743, as has been said over and over, is not a panacea. It cannot take care of everything. But it can, however, tip the business considering expansion or new development in an inner city area.

There are many commercial projects in Fort Worth that could take advantage of S. 743, and I have some photographs of some like the Fort Worth High School site that in the early 1980's was poised for redevelopment when the tax laws changed dramatically and caused it to go on hold. It has been on hold since. It was delayed indefinitely. But in this transitional neighborhood, a project like this could definitely benefit from a little bit of tax help.

Additionally, as strategic planners for a small private university, Texas Wesleyan University in the Polytechnic Heights neighborhood, the small private institution is committed to remain in its nearly century-old inner city location. But we have struggled with trying to find ways to bolster the residential and commercial areas around it. The tax credits help on the housing side, but again the commercial has been left in the lurch. There is a gap there that needs to be filled. Despite the creation of a historic Main Street project in this area, the businesses have continued to languish without the financial support.

AIA believes the Commercial Revitalization Tax Credit Act is well-targeted, cost effective, and builds on existing incentives, like your HUBZone enhancement measure, Mr. Chairman, and the Abraham-Lieberman proposal to enhance existing empowerment communities and enterprise zones. The AIA stands ready to work with your committee and other committees concerned about this issue.

Mr. Chairman, this concludes my testimony which I certainly ask to be submitted to the record.

[The prepared statement of Mr. Gideon follows:]

THE AMERICAN INSTITUTE OF ARCHITECTS

U.S. Senate Committee on Small Business
Hearing on Economic RevitalizationStatement of Randall Gideon, AIA
KVG Gideon/Toal, Inc.

October 19, 1995



Mr. Chairman and Members of the Committee, my name is Randy Gideon. I'm a principal in the architectural firm of KVG Gideon/Toal, Incorporated, in Fort Worth, Texas, and I am President-elect of the Texas Society of Architects. I appear on behalf of The American Institute of Architects, the national professional society of 57,000 members representing the architects of this country.

My personal practice as an architect and planner has involved strategic planning and commercial revitalization in multiple projects in the city of Fort Worth. I currently serve on the Fort Worth Chamber of Commerce Board of Directors, the Board of Downtown Fort Worth, Inc. and am involved in a number of publicly directed economic development programs.

Mr. Chairman, The AIA congratulates you on this important hearing, which will explore ways to help economically distressed neighborhoods attract and retain business investments so vital in restoring their prosperity.

My testimony offers comments on community-based revitalization, as well as several related legislative measures. These measures include your proposal, Mr. Chairman, to create "HUB" zones for the targeting of federal government small business contracts. We applaud this initiative. I will also comment on S. 743, the Commercial Revitalization Tax Credit Act of 1995, introduced by U.S. Senator Kay Bailey Hutchison of my home state of Texas. This measure is a top priority for The AIA, and we are delighted with Senator Hutchison's leadership in introducing and pursuing this legislation. A companion measure H.R. 2138 has been introduced in the House by U.S. Rep. Phil English of Pennsylvania. In addition, I will indicate The AIA's support for S. 1252, which incorporates Senator Hutchison's measure.

Architects have an intimate relationship with all aspects of the built environment. We not only design buildings, but we also apply our skills to the context in which those buildings are placed. We design entire neighborhoods, either brand new ones or ones that seek to renew. We help communities determine how their downtowns should look and function. We work with metropolitan regions to prepare the coordinated transportation and economic development plans that will assure their long term prosperity. And we work with small business owners to develop the new or rehabilitated facilities essential for job growth and neighborhood vitality.

The AIA's urban policies date back more than 100 years. For more than three decades, The AIA has responded to the invitations of communities both large and small to help them resolve their growth and development issues. We do this through the AIA's R/UDAT program--Regional/Urban Design Assistance Teams. A R/UDAT typically consists of a multi-disciplinary

group that consults with community leaders, both public and private, to determine the issues and problems involved, and then recommends a set of solutions, including those involving community design. Each team provides services at cost, and no member of the team may accept contracts resulting from the R/UDAT. I submit for the record a couple of illustrative examples of the work that R/UDAT teams have done over the years.

The AIA believes that successful community revitalization rests on several basic principles which will resonate with the reform goals of this Congress.

First, neighborhood rebuilding is a local enterprise. Each locality is unique, with its own set of problems, needs, assets, and opportunities. It must be up to the locality to determine and to achieve its own destiny.

Second, there should be a complete and open public participation process. Neighborhood revitalization community concerns everybody. All who have an interest in the future of these places should be able to bring that interest to bear on what that future should be. Local leadership from within the affected areas must be encouraged.

Third, there should be a requirement for a strategic plan that lays out how the goal of revitalization will be reached. That plan should be measured according to the community's performance in carrying out and meeting its own plans. It should not be hobbled by rigid federal numerical guidelines that count beans not success and that focus on reporting rather than doing.

Fourth, resources should be coordinated. The problems of distressed neighborhoods and communities did not occur overnight, but built up layer upon layer until their foundation collapsed. Poorly motivated young people with minimal educations, unsafe environments, deteriorated housing and boarded-up commercial properties, heavy concentrations of low and moderate income people, and inadequate public services and neglected infrastructure can sink a neighborhood. Rather than piecemeal approaches, intelligent marshalling and application of available resources can help it to rise again.

Fifth, it takes time to turn things around. Decline took a long time. It should come as no surprise that distressed localities will improve over time, rather than leap ahead.

Sixth, localities need flexibility to experiment with different programs and activities. Because the solutions can only take place locally, people and their government together at the local level need the encouragement to try new and creative approaches. The federal government can and should establish broad national standards in the national interest, but allow wide leeway to states and localities in meeting those standards.

Seventh, the physical aspects of economic distress must be addressed. Unless efforts are made to improve the physical environment, an area will continue to discourage new business and new residents. This means careful attention to an area's appearance, design, and function.

The AIA believes that these principles should be fully taken into account as you examine the issue of neighborhood and community revitalization and specific legislation to encourage it.

We would like to single out S. 743 for particular attention. The AIA believes that the proposed tax credit in S. 743, when combined with other existing incentives and activities, will have a very favorable effect on distressed places. The legislation is designed to encourage business investment or reinvestment in their physical premises in these places. Similar credits already in effect for related purposes such as housing and historic preservation bear this out. S. 743 would fill a gap that now exists.

We urge the members of this committee to join with Senator Hutchison and the other co-sponsors--Senators Thurmond, Cochran, Frist, D'Amato, and Abraham--in endorsing this bill.

This program is also a feature of S. 1252, the Enhanced Enterprise Zone Act, which applies a range of incentives to existing federally designated enterprise communities and empowerment zones (EC/EZ's). We are grateful to the co-sponsors of that measure, Senators Abraham and Lieberman, for recognizing the value of the commercial revitalization tax credit.

S. 743 permits a choice between two available tax credits that may be carried forward or backward against tax obligations. The first choice is a credit equal to 20 percent of eligible construction and related expenses. The entire credit may be used in a single tax year.

The second option allows a taxpayer to apply 5 percent of the eligible expenses to the annual tax liabilities for a ten year period. The legislation wishes to encourage significant investment, so routine maintenance is not an eligible expense, nor any expenditure less than 25 percent of the tax basis of the building or project. Creditable expenses would have a lifetime limit of \$10 million per project.

Total available credits would be \$1.5 billion over five years following enactment, with \$100 million the first year, \$200 million in the second year, and \$400 million available in each of the subsequent three years. These amounts would be allocated directly to the states according to a formula, likely based on population. The states would have the freedom to establish their own programs, although the legislation anticipates that projects awarded credits would be chosen based on their fulfillment of strategic plans developed under a public participation process, and their potential to create permanent jobs.

Businesses eligible for the commercial tax credit could be located in either existing federal EC/EZ's, state EC/EZ's or their equivalent, or any revitalization area established by federal, state, or local law and that contains a population of which at least 50 percent earn less than 60 percent of the median area income.

About 500 communities that applied for EC/EZ designation from the federal government were not selected. Most of these places have quality revitalization programs ready to implement, given sufficient incentives to attract private capital.

It is important to note that this legislation is designed to reward success. No credit may be taken unless the business is generating taxable revenue, and the new or rehabilitated premises is actually placed in service.

If one examines similar credits, it is clear that the proposed CRTC has significant potential for encouraging investment in places where it left years ago. The Low-Income Housing Tax Credit Program (LIHTC) provides \$320 million in credits per year, which generates \$2.8 billion a year in wages and salaries and \$1.3 billion in tax revenues. It also creates about 110,000 jobs in construction and related industries.

Another related tax credit is the historic rehabilitation tax credit, which may be applied to historic properties on the National Register of Historic Places. This credit provided \$97 million in FY 1994, generated \$483 million in private investment, and created 21,000 jobs.

Both of these credits contribute significantly to the betterment of communities and neighborhoods.

S. 743 provides a particular tax incentive aimed at encouraging investment in all places that establish qualified revitalization areas. S. 1252 employs a set of incentives to a smaller group of eligible communities. The HUB zone program directs federal contracts to areas with special needs, using criteria compatible with S. 743 and S. 1252. The three measures are mutually supportive and complementary. In each case, they are designed to fill in a missing piece of the revitalization puzzle.

From personal experience, I can tell you the value of capital based tax incentives such as the proposed CRTC and other related tax incentives--like the Low-Income Housing Tax Credit and the historic rehabilitation credit.

My firm is engaged with the city of Fort Worth and with its private sector in implementing the city's strategic plan for its central business district. My partner was instrumental in the development of that plan. It is an ambitious, yet down-to-earth plan that combines vision with a realistic view of what is needed to make it happen. It builds on the community's wonderful historic assets, its institutions, and its optimistic outlook.

We know that the business community needs to offset the substantial risks involved in reinvesting in places that business has fled for very good reasons. These incentives trade a reduction in cost for the risk of the enterprise.

The historic rehabilitation tax credit has allowed us to save some valuable historic properties in distressed areas, and has made them important contributors to their future. Many of these properties have been a success and continue to develop in Fort Worth.

The Low-Income Housing Tax credit has allowed these areas to provide badly needed housing for those who wish to live and work there. Our housing implementation plan for Fort Worth's central business district includes several hundred low and moderate income units in the first phase of a nearly 900 unit complex.

But we recognize that a neighborhood is more than just housing. It is everything that makes for a good life--housing, businesses large and small to provide services and employment opportunities,

and religious and educational institutions. The buildings that house the varied aspects of neighborhood life constitute the physical expressions of that neighborhood, sending forth loud clear signals of what that neighborhood is about.

An effective capital-based incentive for non-historic commercial projects in targeted areas is a missing piece of the incentive package that must be made available to reduce the risk of investment. The CRTC is not a panacea. It cannot in and of itself solve the problems of these distressed areas. It can, however, tip the balance for a business considering expansion or new development. There are a number of commercial projects in Fort Worth that could be realized with such incentives. The Fort Worth High School site, located in the heart of our hospital district, has anticipated a 100,000 square-foot mixed-use development. This development was delayed indefinitely with the collapse of the real estate and related tax benefits in the mid-1980's. The CRTC is the type of financial incentive necessary to breathe new life into this facility located in a transitional neighborhood.

Additionally, as strategic planners for Texas Wesleyan University in the Polytechnic Heights neighborhood of the city, our firm has struggled with the basic economic impacts on the neighborhood surrounding the site. With the commitment of this small private institution to remain in its century-old inner city location, the university has strived to find ways to bolster the surrounding commercial and residential areas which are in severe decline. Despite the creation of a historic main street project and the leadership of a business-based community development corporation, this strip of important commercial properties, located on the busiest bus transit route in Fort Worth, continues to languish without financial encouragement. Numerous private businesses and investors have tried to make something happen, but success margins are much too small to result in the needed revitalization. This area too could be a prime candidate for the assistance of the CRTC.

We believe this proposal is well-targeted, built on proven and accepted mechanisms for delivering tax incentives. It can operate with a minimum of bureaucracy, will complement other incentives, will make economic gains for eligible areas. The proposal is cost effective for communities by leveraging existing infrastructure and putting buildings that are economic and social liabilities back into productive use.

It would be paid for in three ways--claiming a small slice of tax reductions that Congress has decided to enact; generating economic activity that returns money into the Treasury; and shifting resources from untargted programs such as the 10 percent rehabilitation tax credit.

S. 743 would relate well to other legislation under consideration today, specifically S. 1252, the Enhanced Enterprise Zone Act and the HUB Zone bill which is still under development. We would urge that S. 1252 broaden its CRTC provision to encompass the larger number of areas in which S. 743's tax incentives could be used.

With respect to the HUB Zone proposal, we believe this measure would work well with the capital-based incentives we have already discussed. Businesses located in revitalization areas that receive targeted federal contracts would in many cases need to upgrade or expand their facilities to do the job. Others might be encouraged to locate to new premises in the zone to take

advantage of targeted contracts. It appears that your proposal would concentrate these contract opportunities in the same types of areas that would benefit from S. 743 and S. 1252. We would make one suggestion about the proposal. It should require that these areas be designated for coordinated revitalization efforts by federal, state, or local governments. This would ensure that the beneficiaries of these contracts would be located in the same areas where businesses would be able to apply the tax and other incentives of S. 743 and S. 1252. The HUB zone proposal would be a good partner to those measures that encourage upgrading the private capital assets of economically troubled communities, and we look forward to its enactment.

Mr. Chairman, the AIA believes there are many paths to the improvement of economically depressed areas, and the hearing today explores how to make those paths as smooth and as even as possible. We stand ready to work with your committee and with other committees concerned about this issue.

Chairman BOND. It will be.

Mr. GIDEON. I would also ask to submit some additional materials for your consideration, including letters of support for S. 743 from the mayors and city managers of Fort Worth, Houston, St. Louis, and several examples of an AIA-initiated program that assists local communities with development and rehab.

Chairman BOND. Those will be accepted for the record. Thank you very much, Mr. Gideon.

[The information follows:]

TEXAS SOCIETY OF ARCHITECTS 114 WEST SEVENTH SUITE 1400 AUSTIN, TEXAS 78701 512/478 7386
DAVID LANCASTER EXECUTIVE VICE PRESIDENT

February 16, 1995

The Honorable Kay Bailey Hutchison
United States Senate
Washington, DC 20510
ATTN: Ken Johnson
via FAX: (202) 224-0776

Dear Senator Hutchison:

On behalf of the 4,000 members of the Texas Society of Architects, I am writing to encourage your support for commercial revitalization tax incentives.

We support the creation of a 20 percent credit for new construction or rehabilitation associated with a commercial, retail, or mixed-use economic development project within an Empowerment Zone/Enterprise Community, or a neighborhood revitalization area established under federal, state, or local programs.

As you know, Texas has five designated Empowerment Zones/Enterprise Communities--Houston, Dallas, El Paso, San Antonio, and Waco--so this incentive could help us see a more equitable return of Texas tax dollars to benefit the state.

The credits would operate very much like the low-income housing tax credits in that non-profits could sell credits to private corporations to raise capital and the amount of credit would be determined according to a state allocation process.

The TSA also supports other business related tax incentives, such as a reduction in capital gains and revision of the historic preservation tax credit, which was severely restricted in the 1986 Tax Reform Act. Combined with a new commercial revitalization tax incentive, we believe this tax package would stimulate economic growth and create a large number of jobs in the construction industry. It would also give small businesses leverage to expand and/or improve their facilities, thus adding value to their establishments and allowing them to hire more employees.

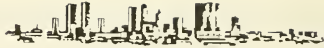
Thank you for your kind consideration of this request. We look forward to hearing from you at your earliest convenience. Should you have any questions, or need additional information, please do not hesitate to contact me at (512) 478-7386.

Sincerely,



David Lancaster

CITY OF FORT WORTH, TEXAS



OFFICE OF THE CITY MANAGER
1000 THROCKMORTON STREET
FORT WORTH, TEXAS 76102
(817) 871-6111
FAX (817) 871-6134

July 12, 1995

The Honorable Kay Bailey Hutchison
Room 703, Hart Senate Office Building
Washington, DC 20510

Dear Senator Hutchison:

I would like to express my enthusiastic support for Senate Bill #743, the *Commercial Revitalization Tax Credit Act of 1995*. The legislation which you have introduced could be used to expand existing businesses and to attract new business to designated areas of Fort Worth which have long suffered from disinvestment, loss of employment opportunities, and physical deterioration.

Two such areas located in Fort Worth are the **Historic Stockyards** (and the North Main Street business corridor), and the **Southside Medical District**, which is located just south of Downtown. These areas hold tremendous development potential due to tourism and expansion of existing health service facilities. The City has initiated major planning efforts to identify the assets that the two areas offer the community as a whole. In the end, we hope to capitalize and build on these assets through the use of creative measures, such as the Commercial Revitalization Tax Credit, to implement strategies to improve neighborhood and community growth.

We in Fort Worth see economic development, job creation, and public-private partnership as the keys to revitalizing older, inner-city neighborhoods. The proposed legislation, combining these elements, could be an important catalyst for revitalization and community change. Therefore, again, I support your efforts in this matter.

Sincerely,

Bob Terrell
City Manager

BT:n



OFFICE OF THE MAYOR
CITY OF HOUSTON
TEXAS

BOB LANIER
MAYOR

July 10, 1995

The Honorable Kay Bailey Hutchison
Room 703, Hart Office Building
Washington, D.C. 20510

Dear Senator Hutchison:

I strongly support the Commercial Revitalization Tax Credit Act you have sponsored in the current federal legislative session. One of the major economic development components in the City of Houston's Enhanced Enterprise Community strategic plan is the creation of Community Economic Development Corridors. These corridors are major arteries in each community which were once healthy business districts. The ability to combine these proposed tax credits with Section 108 loans and accompanying grant monies will be an effective tool to attract new businesses or expand existing ones.

Revitalization efforts in Houston have already been extremely successful but we still have a long way to go. This Act will help us build on those efforts and enable us to move forward even quicker. Again, I support your actions and appreciate your support of reversing the decline in our urban centers.

Sincerely,

Bob Lanier
Mayor

BL:jib

cc: Sylvia DeLeon
Stephanie Markiewicz

AIA Houston

A Chapter of the American Institute of Architects



June 1, 1995

The Honorable Kay Bailey Hutchison
The United States Senate
708 Hart Senate Office Building
Washington, D. C. 20510

Dear Senator Hutchison:

The American Institute of Architects/Houston appreciates your introducing The Commercial Revitalization Tax Credit Act. The success of Houston's empowerment zone/enterprise community designation as well as the realization of downtown redevelopment plans currently being proposed by the American Institute of Architects to the City and private business groups would be greatly enhanced by the passage of this legislation.

Thank you for your interest in this important aspect of urban revitalization. If AIA/Houston can be of help to you, please call on us.

Sincerely,

Martha Murphree, Hon. AIA
Executive Director

President:
David H. Williams AIA
President-Elect:
Bobbie Labadie AIA
Secretary and Director
for Membership:
Renee C. Johnson AIA
Treasurer:
Ron L. Ross Jr. AIA
Past President:
James E. Puri FAIA
TSA Director:
Marjorie L. Apps AIA

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Loren M. Baltimore Jr. AIA
Director for Design:
Robert L. Christie AIA
Director for Practice:
Kerry M. Kashner FAIA
Director for Special Issues:
Daniel B. Saravali AIA
Director of Studies:
R. Scott Ziegler AIA
William M. Monahan AIA
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Executive Director:
Robert H. Timms FAIA
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College of Architecture
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Dean, Rice University
School of Architecture
Dr. Tobias Sabouni, Associate AIA
Associate Dean
Randy L. Smith AIA
Department of Architecture
William R. Stone AIA
Past Design Director
Brent Smith
Architectural
Jennifer Murray
AIA's University of Houston
Annex Thompson
AIA's Board Vice, AIA of Houston

Executive Director:
Martha Murphree Hon. AIA

20 Greenway Plaza, Suite 245
Houston, Texas 77046-2002
Fax 713-621-0825
713-622-2081

AIA Missouri

A Council of The American Institute of Architects



October 17, 1995

Senator Christopher S. Bond
293 Russell Building
Washington, D.C. 20510

Dear Senator Bond:

On behalf of the Board of Directors of the Missouri state component of the American Institute of Architects, I am writing this letter in strong support of the Commercial Revitalization Tax Credit (CRTX) legislation.

We believe, in addition to filling an important gap in current tax credit programs, this legislation is enhanced by the requirement for administration at the state and local level.

Involvement from the federal level through tax incentives designed to facilitate the physical development necessary for business expansion and economic growth will ensure that the strategic plans for rebuilding our inner cities will be realized.

The passage of the CRTX bill will be a strong step toward progress for our country and we would appreciate your support.

Sincerely,

A handwritten signature in dark ink, appearing to read "Pat Arnick", written over a horizontal line.

Pat Riner Arnick
Executive Director

ST. LOUIS DEVELOPMENT CORPORATION

September 1, 1995

Freeman R. Bosley, Jr.
Mayor

Larry T. Bushong
Executive Director

330 North 15th Street
St. Louis, MO 63103
(314) 622-3400
(314) 259-3435 • TDD

Fax
(314) 622-3413
(314) 231-2341

The Honorable Christopher S. Bond
Senate Office Building
Washington, D.C. 20510

Dear Senator Bond:

On behalf of St. Louis Development Corporation, the economic development agency of the City of St. Louis, I write in complete and enthusiastic support of the Commercial Revitalization Tax Act of 1995 (S. 743). The City of St. Louis is absolutely tailor-made for this type of tax credit. With the emphasis on physical development as a means of economic revitalization, with few restrictions, this legislation encourages the development of older, obsolete buildings and hard-to-develop sites, which is of particular relevance to older urban centers like St. Louis.

St. Louis has in place development strategies and incentives which we aggressively market; we have an established Enterprise Zone and a newly-formed Enterprise Community, redevelopment areas and strategic plans for various neighborhoods. This tax credit represents an effective, efficient and flexible method for offering businesses and developers an incentive to rehabilitate existing buildings or construct new facilities or underwrite the cost of complying with historic preservation standards. Currently, the costs associated with these types of expenditures can inhibit projects and, therefore, restrict potential job growth. Our existing incentives do not completely offset the prohibitive costs of these development activities and these costs can undermine even the most aggressive developer and the best development proposals. This tax credit would be a significant addition to the types of assistance that we can offer businesses in some of our more economically distressed areas.

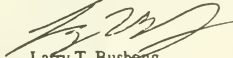
Of special interest to us is the flexibility it provides for activities relating to acquisition, toxic clean-up and demolition, all significant factors in urban redevelopment. We have several projects in the planning stages that would receive an immediate boost from this tax credit (Cupples Station, the Arena, Washington Ave. Loft District, Martin Luther King Business Park and numerous other blighted areas throughout the city). The emphasis on physical development as an economic catalyst provides a welcome complement to other assistance available for training and business development. It also provides another important piece in the array of assistance and funding resources that we are currently utilizing to revitalize our Enterprise Community.

Enterprise Zone Commission • Industrial Development Authority • Land Clearance For Redevelopment Authority
Land Reutilization Authority • Local Development Company • Operation Impact
Planned Industrial Expansion Authority • Port Authority • Tax Increment Financing Commission

The Hon. Christopher S. Bond
September 1, 1995
Page 2

With an array of local, state and a federal incentive such as S. 743 in place, the City of St. Louis can make dynamic changes to its physical environment, thus improving our potential for job creation and economic growth for the City and its residents. I strongly urge your support for the Commercial Revitalization Tax Act of 1995.

Sincerely,



Larry T. Bushong
Executive Director
St. Louis Development Corporation

LTB:jh

cc: Mayor Freeman R. Bosley, Jr.
Peter Sortino
Charles Kindleberger
James Brown
Al Eisenberg



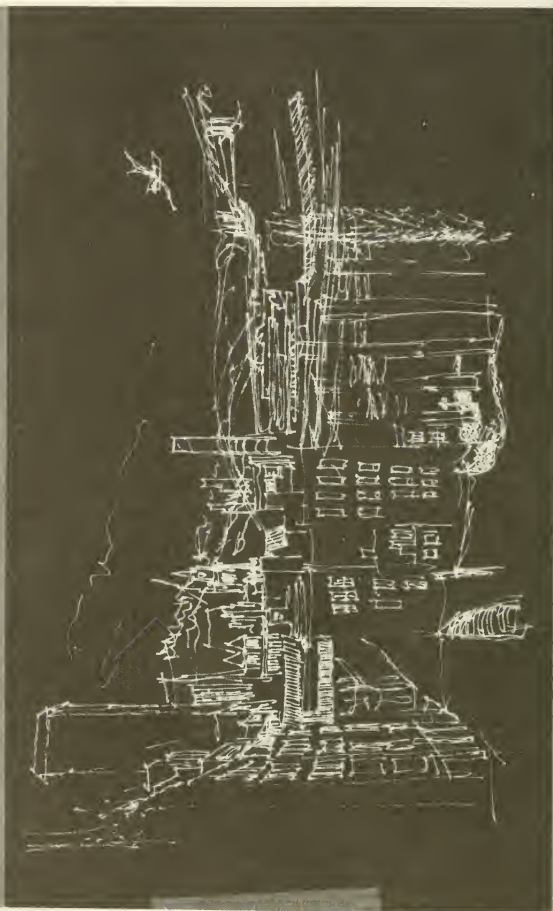
Small building at the station.







This Brochure Is to Inform Community Leaders of a Service of The American Institute of Architects That Can Be Used to Improve the Quality of Neighborhoods, Towns, Cities, Counties and Regions.



It's a Process That Works. **R/UDAT**

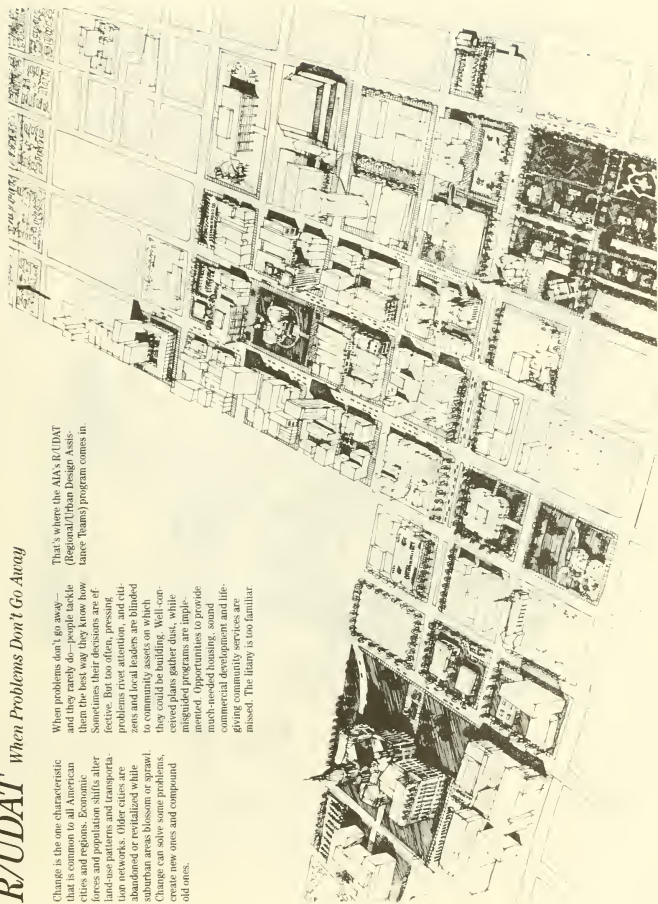
R/UDAT

When Problems Don't Go Away

Change is the one characteristic that is common to all American cities and regions. Economic forces and population shifts alter land-use patterns and transportation networks. Older cities are abandoned or revitalized while suburban areas blossom or sprawl. Change can solve some problems, create new ones and compound old ones.

When problems don't go away—and they rarely do—people tackle them the best way they know how. Sometimes their decisions are effective. But too often, pressing problems rivet attention, and citizens and local leaders are blinded to community assets on which they could be building. Well-conceived plans gather dust, while misguided programs are implemented. Opportunities to provide much-needed housing, sound commercial development and life-giving community services are missed. The litany is too familiar.

That's where the AIA's R/UDAT (Regional/Urban Design Assistance Teams) program comes in.



R/UDAT

A Public Service of the AIA

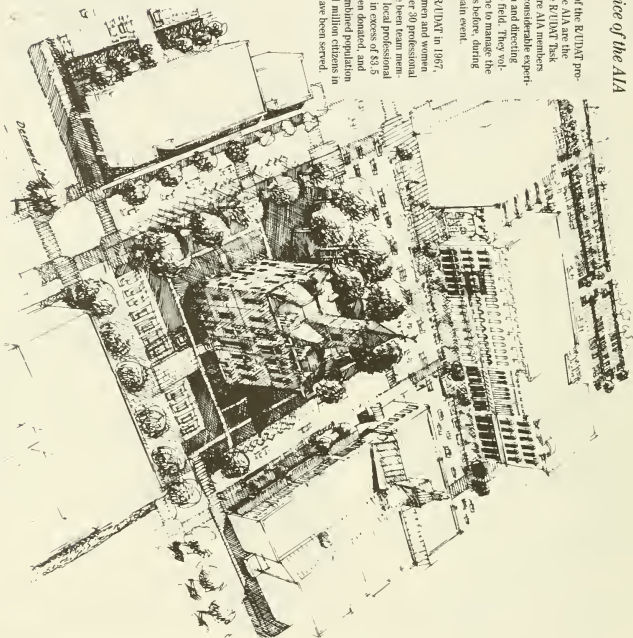
The R/UDAT program is a public service of the Urban Design and Planning Committee of the American Institute of Architects. The R/UDAT process begins when a local government, community organization or AIA chapter recognizes a local urban design or community planning problem and asks the national AIA for help.

The AIA responds by fielding a team of experts to work with that community. An intensive four-day workshop is held and subsequent follow-up visits are made as necessary.

With the unique needs of each community in mind, team members are selected from a volunteer pool of urban designers, planners, landscape architects, economists, sociologists, growth management experts, preservationists, development specialists, political scientists, lawyers and, of course, architects. They volunteer their time and energy because they believe in the purpose and effectiveness of the R/UDAT process. Only their traveling and living expenses are reimbursed by the host community and, to assure objectivity, team members agree not to accept commissions resulting from the recommendations made in the study.

The overseers of the R/UDAT program within the AIA are the members of the R/UDAT Task Group. These are AIA members who have had considerable experience serving on and directing R/UDATs in the field. They volunteer their time to manage the R/UDAT process before, during and after the main event.

Since the first R/UDAT in 1967, more than 500 men and women representing over 30 professional disciplines have been team members. Team and local professional services valued in excess of \$3.5 million have been donated, and areas with a combined population of more than 21 million citizens in over 40 states have been served.



In one way or another, the urban design process is going on in every community. In some places it is formal and vigorous. Elsewhere it is informal, even invisible. Nonetheless, it guides community change for better or for worse. A R/UDAT sees this process up for public view and scrutiny—both by the people who live there and by experts who have been invited to study and recommend. It is this mutual effort that makes a R/UDAT work.

Urban design speaks to all scales—regional, city, town, neighborhood; to all activity areas—commercial and industrial, cultural and educational, residential and recreational, and to the systems that link these—transportation, communication, utilities. It is a process for looking at local assets, analyzing community needs and proposing workable ways to get things done. As such, the urban design process provides a framework for the development of a community, not a blueprint for its completion.

R/UDATs have addressed a number of broad urban design issues—downtown revitalization, environ-

mental conservation, growth management, transportation planning, neighborhood improvement, historic preservation, park and open space development—and a host of special issues. For example:

LYNN, MASSACHUSETTS—how to revitalize an unplanned, disorganized and uneconomic city center;

BUTTE, MONTANA—how to resolve the future of a city being consumed by an expanding open-pit copper mine;

CORPUS CHRISTI, TEXAS—how to reorient a downtown severely disconnected from a major sector of the population;

GUNNISON COUNTY, COLORADO—how to resolve conflicts among scenic preservation,

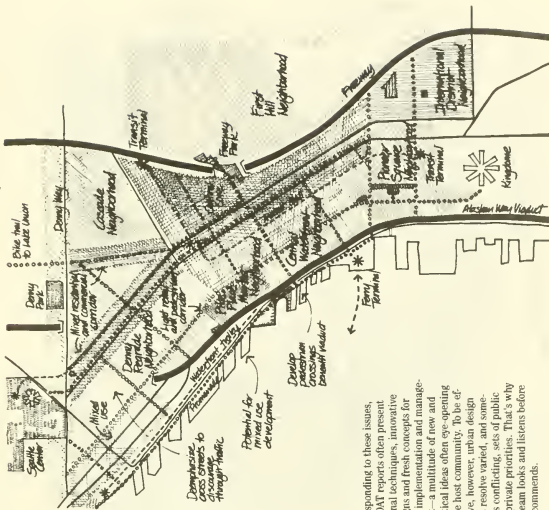
recreational development and other commercial interests;

ST. LOUIS, MISSOURI—how to restore a major public park that was poorly understood, used and planned for;

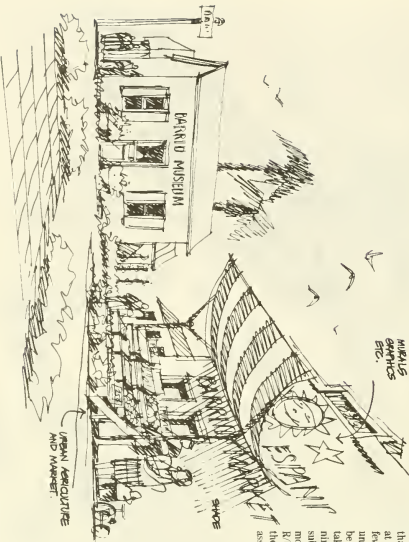
SEATTLE, WASHINGTON—how to capture the opportunities and understand the constraints and implications of downtown living;

HEALDSBURG, CALIFORNIA—how to take advantage of development opportunities without sacrificing a smaller town's character and style of life;

NIAGARA FALLS, NEW YORK—how to capitalize on the economic potential of tourism and to implement planned economic and neighborhood revitalization programs.



In responding to these issues, R/UDAT reports often present original techniques, innovative designs and fresh concepts for both implementation and management—a multitude of new and practical ideas often eye-opening to the host community. To be effective, however, urban design must resolve varied, and sometimes conflicting, sets of public and private priorities. That's why the team looks and listens before it recommends.



R/UDAT Application, Evaluation and Commitment

Inviting, hosting and working with a R/UDAT is a major local undertaking. Professional time and effort donated by the ALA and team members is also significant; and, while many communities express interest in the R/UDAT program, the availability of volunteers and their time is limited. This sets the number of teams that can be fielded in any one year at about eight and, in some years, fewer. Also, it is important to understand that a R/UDAT cannot be put together overnight. It may take many months of local planning before an application can be submitted and several more months of effort by the ALA's R/UDAT Task Group to assure that the best possible team is assembled.

Getting organized early is the key, and the first step is to contact the ALA for advice and information on how to set up a local steering committee, what costs can be expected and how to prepare a formal application. Once this application is submitted, it is reviewed and evaluated by experienced R/UDAT Task Group members. This stage includes a visit to the community by a member who will meet with the steering committee and other local leaders, tour the study area and report back to the task group.

During this review, it may become apparent that a community just isn't ready for a R/UDAT or that a R/UDAT is not the right tool for the job. The ALA then lets everyone know that a R/UDAT is not forthcoming and why. Usually, though, an application can be revised, local arrangements reconsidered or issues redefined during the evaluation process. The goal of this mutual effort is to "design" a R/UDAT that is tailored to the specific needs and resources of the community and to the capabilities of the R/UDAT program.

When all things seem to be in order, the ALA's R/UDAT Task Group makes a formal commitment to assemble and field a team. That's when they and the local steering committee shift into high gear.

R/UDAT

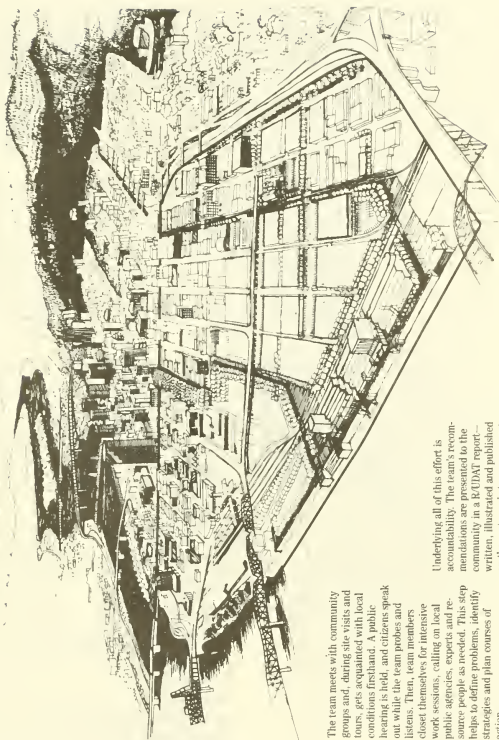
When the Team Comes to Town

After an application for a R/UDAT is evaluated and the R/UDAT Task Group has made a commitment to work with a community, a team chairperson is designated. He or she then visits the community well in advance of the R/UDAT to meet with citizens, leaders, planning officials and local AIA members. A packet of maps, statistics and other pertinent information is prepared by the steering committee, together with a statement of the specific problems to be confronted. Each R/UDAT member gets a copy to study prior to leaving home.

The R/UDAT event itself lasts about four days—generally an extended weekend—and is coordinated by the local steering committee, composed of community organizations, the AIA chapter and concerned individuals. Students from a nearby school of architecture or planning usually assist.

The team meets with community groups and, during site visits and tours, gets acquainted with local conditions firsthand. A public hearing is held, and citizens speak out while the team probes and listens. Then, team members closet themselves for intensive work sessions, calling on local public agencies, experts and resource people as needed. This step helps to define problems, identify strategies and plan courses of action.

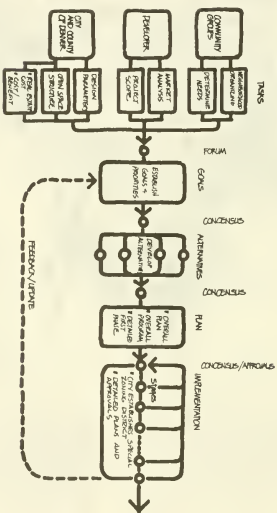
Underlying all of this effort is accountability. The team's recommendations are presented to the community in a R/UDAT report—written, illustrated and published on the spot—and at an open meeting where citizens and public officials hear and discuss the team's findings and recommendations.



R/UDAT *When the Team Goes Away*

A R/UDAT does not replace the services of local architects, other design professionals or public officials and staff. Nor is it meant to generate just a lot of visionary but unachievable ideas. A R/UDAT does provide recommendations—made by men and women who are tops in their fields—that are imaginative and workable. And, the involvement and commitment of local AIA members is a valuable part of the R/UDAT process. Inevitably, local officials and local design professionals are cast in responsible roles in organization, problem identification, information gathering, team liaison and—most important—in forming the public-private partnerships necessary to get things done after the team's visit.

When the team leaves, the community is faced with the task of digesting the R/UDAT report and weighing its recommendations. Experience has shown that some of these are easy to take on while some are not. That's why a follow-up process is now built into each R/UDAT program from the start. This follow-up will, of course, vary from place to place, but will support the work of the local community and help them to keep things on track. Follow-up contact with the AIA's R/UDAT Task Group can suggest alternative proposals when changing conditions require them and enlarge on the original recommendations—clarifying misunderstandings and identifying new strategies—when necessary. The commitment of the AIA doesn't go away with the team.



The R/UDAT process has indeed helped many cities, but it is not a panacea for all conflicts and crises. It *does* provide an opportunity to review regional or urban problems with a group of people who have dealt with similar issues before, and who are willing to share the benefits of their experience and skills with others. However, the printed report that the team leaves behind can only fix the starting point for a long and continuing effort by the community. While the R/UDAT program will maintain contact with the community to keep the ball roll-

ing, citizens and local leaders must organize for an effective program of implementation. The local effort, with the continuing availability of guidance from the AIA, can result in better communities and a better quality of life for their inhabitants. For example:

A R/UDAT CAN RESULT IN A COMMITMENT TO PLANNING—After a R/UDAT visit to McMinnville, one of Oregon's smaller communities, money was appropriated in the city's budget for planning—for the first time ever. The

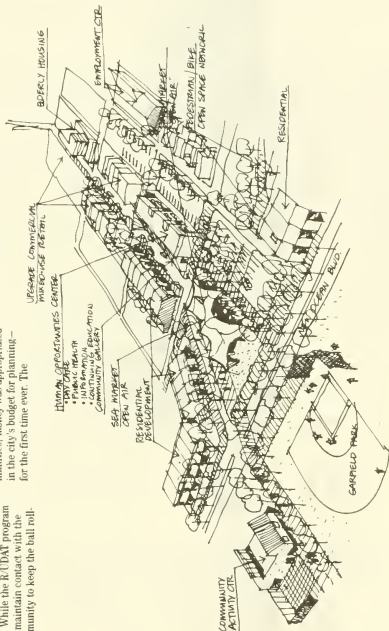
R/UDAT recommendations formed the basis for the downtown plan, which has now been officially adopted and is in the process of being implemented.

A R/UDAT CAN SPARK DRAMATIC ACTION—Following a R/UDAT in Honolulu, the Hawaii legislature passed a resolution to implement certain team recommendations immediately, among them a specific proposal to convert a city dump into a park.

A R/UDAT CAN SPEED UP THE IMPLEMENTATION OF EXISTING PLANS—The team's recommendations at Shreveport, Louisiana, supporting a dormant revitalization plan, resulted in the formation of a nonprofit downtown development corporation within a month of the team's visit.

A R/UDAT CAN LEAD TO A BALANCING OF DEVELOPMENT ALTERNATIVES—In Louisville, Kentucky, the R/UDAT process brought together several community organizations to participate in developing goals and objectives for downtown. Preservation, redevelopment and neighborhood alternatives were viewed in the economic and urban design context of the city, and a balanced program was endorsed and adopted.

R/UDATs bring local people and groups together so that they can improve the quality of life of their communities. The public decision-making process that results is, by nature, broad and long-term. This long-term decision making is essential when public and private investors commit the large sums of money that urban design actions require. For these reasons, the staying power of the local R/UDAT participants and their continuing energy year by year can become a community's most important lever for action.

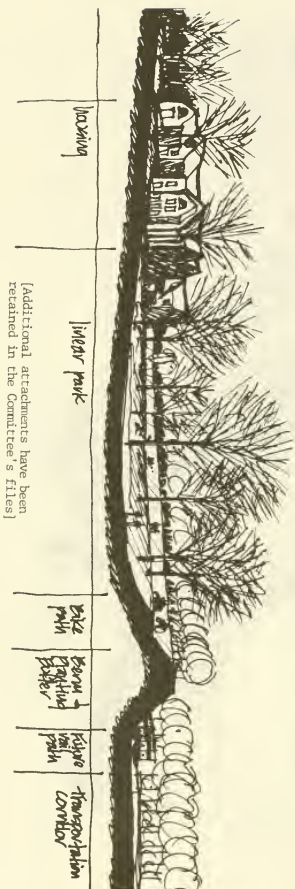


R/UDAT

A Process That Works

It has been said that during the past 30 years American cities have been "planned to death." Too often, consultants and public agencies produced plans that never got off the ground, not because they lacked merit, but because public acceptance and consensus were not "built in." In recent years, however, direct participation by citizens is increasing. This sensitivity to urban context, human needs and sense of place is seen as today's best resource for making workable community development decisions.

During the last two decades, the AIAs R/UDAT program has built up perhaps the richest track record of participatory planning in the nation. It has long been recognized as an effective way to democratize the making of community planning and urban design decisions. It's a process that works.



[Additional attachments have been retained in the Committee's files]

Chairman BOND. Dr. Bendick.

STATEMENT OF MARC BENDICK, JR., Ph.D., PRINCIPAL, BENDICK AND EGAN ECONOMIC CONSULTANTS, INC., WASHINGTON, D.C., AND PROJECT DIRECTOR, COMMITTEE FOR ECONOMIC DEVELOPMENT, NEW YORK, NEW YORK

Mr. BENDICK. Thanks, Mr. Chairman. The Committee for Economic Development, CED, is a nonprofit, nonpartisan policy research organization representing 250 of the Nation's most prominent business leaders. I am Marc Bendick, Jr. and I served as the project director for CED's 2-year study of distressed inner-city communities.

The CED study reached three basic conclusions. First, the problems of distressed inner cities are so serious that they pose such a threat to the Nation that even while the Nation struggles to reduce the Federal deficit, public resources to address these problems should be expanded rather than reduced.

Second, the Nation cannot simply address poverty, joblessness, crime or poor housing in these neighborhoods one problem at a time. Rather, initiatives on each of these subjects should be structured to build and build upon the community's ability to overcome problems.

Third, the hallmark of initiatives that achieve that goal, that comprehensive development, is partnerships that place neighborhood residents and the community-based institutions in the lead in designing and implementing programs while the Federal Government, along with State and local Government, the business sector, and philanthropies, align themselves as support systems for those local initiatives, amplifying them with financial, technical, and political resources. You could call this the arsenal of democracy approach. The Federal role is to give the community-based initiatives the tools, and they can do the job.

These three principles give a basis for five comments on the bills before the Committee today, and I will give them to you very briefly.

First, all four of the proposals and particularly those that are proposing new tax credits, expand rather than decrease the Federal commitment to distressed communities. That is a number one positive concept totally in line with CED's positions.

Second, CED looked at the Low-Income Housing Tax Credit and found it to be an absolute model of an effective Federal approach to community building. CED endorsed the enactment of a tax credit parallel to this Low-Income Housing Tax Credit to support commercial and industrial redevelopment, and that is exactly what is in Senator Hutchison's Act. That kind of tax credit can be absolutely crucial in providing support for organizations, such as LISC and initiatives such as we have heard about from the other witnesses, that are on the cutting edge of doing positive things in distressed communities today.

I might add that in addition to supporting the addition of the commercial and industrial-oriented tax credit, CED identified four current Federal programs as absolutely crucial in providing support for community-building and recommended preserving or expanding each one of them. Those four are the Low-Income Housing

Tax Credit, the Community Reinvestment Act, HUD's HOME program, and HUD's Community Development Block Grants.

The third point. Other provisions in the various bills before the Committee are designed to promote business development through a variety of approaches—regulatory relief, procurement set-asides, or a number of other tax credits other than the commercial revitalization tax credit. When CED looked at the problems of the inner cities and what was the history of effective actions against them, it did not find that initiatives such as those initiatives—the procurement set-asides, the additional tax incentives, or the regulatory relief—were particularly high priority or central to the progress in these communities.

The fourth point, geographical targeting. CED identified the negative interaction among multiple problems in a community as the key reason for the intractability of community distress and a key definition of where the problems most needed Federal assistance. Accordingly, it is appropriate not to use a single criterion, such as resident's low income alone, to target benefits or define eligibility for benefits in these bills, but instead the emphasis should be on finding the simultaneous presence of multiple problems.

The final comment derived from CED's positions concerning community participation. Central to CED's strategies for rebuilding these communities is the participation of residents, typically through community leadership institutions such as the community development corporations that Paul Grogan mentioned. These residents and these institutions must participate in the shaping of the direction of community development and their implementation. Some of the bills before you do a very good job of promoting that participation, in particular the Community Revitalization Tax Credit Act and the Enhanced Enterprise Zone Act which requires State agencies, in distributing benefits, to look at the participation of local residents and nonprofit groups and look at the fit of projects within a strategic plan devised with citizen participation.

Other proposals before the Committee today operate more in the spirit of the solo development of an isolated business venture, and CED simply found that historically such lone ranger efforts are relatively ineffective in revitalizing distressed communities.

Thanks very much.

[The prepared statement and attachment of Mr. Bendick follow:]

Marc Bendick, Jr., Ph.D.

Principal, Bendick and Egan Economic Consultants, Inc., Washington, D.C.
and
Project Director, Committee for Economic Development, New York, New York

Mr. Chairman and Members of the Committee:

I appreciate this opportunity to participate in these hearings concerning revitalization of America's distressed rural and urban communities. The Committee for Economic Development (CED) is a non-partisan, non-profit research and policy organization of 250 of the nation's most prominent business leaders and educators.¹ I am Dr. Marc Bendick, Jr., an economist, and I served as the project director for CED's two-year study of distressed inner-city communities that underlies my testimony today.²

The CED trustees reached three conclusions:³

First, distressed communities within the nation's urban areas undermine the fiscal and operational viability of major cities, threaten important public and private investments, weaken the nation's human resources, unduly burden taxpayers, and conflict with the American ideal of equality of opportunity. These problems are so serious that, even while the nation struggles to reduce the

¹The chair of CED's Board of Trustees is John L. Clendenin, Chairman and Chief Executive Officer of BellSouth Corporation; the chair of its Research and Policy Committee is Josh S. Weston, Chairman and Chief Executive Officer of Automatic Data Processing, Inc.; and the chair of its Subcommittee on Tackling the Problems of the Inner City was William S. Edgerly, Chairman, Foundation for Partnerships, and former Chairman and Chief Executive Officer of the State Street Bank of Boston.

²CED's findings and recommendations, as adopted by vote of its Research and Policy Committee, are set forth in Rebuilding Inner City Communities, A New Approach to the Nation's Urban Crisis (New York: Committee for Economic Development, 1995). Statements in the present testimony that expand or apply those in that report are solely my responsibility.

³CED examined distressed communities only in urban areas. In many cases, however, similar statements are applicable to counterpart rural communities.

federal deficit, public resources committed to addressing them should be expanded rather than reduced.⁴

Second, underlying the specific problems plaguing distressed communities is a collapse of their ability to cope with problems. This development reflects an over-concentration of social and economic problems in certain neighborhoods, the flight of the middle class and their problem-solving resources, and the isolation of those communities from the broader society. Accordingly, the nation cannot simply address poverty, joblessness, crime, blight, or poor housing in these areas one issue at a time. Instead, initiatives on each of these subjects should be shaped to build, and to build upon, the "social capital" that represents a community's ability to overcome problems.⁵

Third, the hallmark of initiatives that can achieve this objective is partnerships in which community residents, the public sector, and the private sector all participate. These partnerships place neighborhood residents and their community-based institutions in the lead in designing and implementing programs. The federal government, state and local government, philanthropies, and the business sector then align themselves as support systems amplifying these community-based efforts with financial, technical, and political resources.⁶

These three principles provide a yardstick against which to

⁴Rebuilding Inner City Communities, page 39.

⁵Rebuilding Inner City Communities, chapter 2.

⁶Rebuilding Inner City Communities, chapters 3 and 4.

measure the four legislative proposal before the committee in these hearings:⁷

Expansion of Resources. All four proposals -- particularly those proposing new tax credits -- expand rather than decrease the federal commitment to distressed communities. To that extent, the proposals are consistent with the CED's recommendation to increase the allocation of public resources addressing these problems.

Tax Credits that Build Partnerships. The CED trustees found the Low Income Housing Tax Credit (LIHTC) to be a model of community building, effectively mobilizing resources from outside distressed communities to support problem solving by neighborhood residents and local institutions.⁸ CED endorsed expansion of the LIHTC, as well as enactment of a parallel tax credit to support commercial and industrial development. The latter is exactly what is proposed in the Hutchison and the Abraham-Lieberman bills.

Approaches of Lower Priority. Other provisions in the

⁷These four proposals are:

- S. 743, the Commercial Revitalization Tax Credit (CRTC) Act of 1995, proposed by Senator Hutchison;
- S. 1184, the Urban Regulatory Relief Act of 1995, proposed by Senator Ashcroft;
- S. 1252, the Enhanced Enterprise Zone Act of 1995, proposed by Senators Abraham and Lieberman; and
- The Historically Underutilized Business Zones (HUBZones) proposal to be introduced by Senator Bond.

⁸Four current federal programs provide essential support for community-building in distressed communities, and the CED report recommends preserving and/or expanding each of the them. The four are: The Low Income Tax Credit, the Community Reinvestment Act, HUD's HOME Program, and HUD's Community Development Block Grant.

proposed legislation are designed to promote business development in distressed communities through regulatory relief,⁹ procurement setasides,¹⁰ or additional tax incentives concerning capital gains, sale of stock, and expensing of investment outlays.¹¹ CED's review of the problems of distressed communities did not identify such initiatives as central to progress.

Geographical Targeting. CED identified the negative interaction among multiple problems in a community as a central source of intractable community distress. Accordingly, it is generally not appropriate to use residents' low income alone to measure local distress. To target benefits to areas most in need of revitalization, it is more appropriate to base eligibility on the simultaneous presence of multiple social and economic problems. While some of the bills (notably, the Urban Regulatory Relief Act)

⁹Surveys of inner-city businesses, as well as the experience of state enterprise zone programs that include regulatory relief, suggest that regulatory problems are not the primary constraint on business development in distressed inner city areas. See Marc Bendick, Jr. and David W. Rasmussen, "Enterprise Zones and Inner City Economic Revitalization," in George Peterson and Carol Lewis (eds.) Reagan and the Cities (Washington, D.C.: The Urban Institute Press, 1986), p. 105.

¹⁰Setasides, if properly designed, can be effective tools of business development. However, many programs do not operate in that mode. See Marc Bendick, Jr., "The Croson Decision Mandates that Setaside Programs be Tools of Business Development," George Mason University Civil Rights Law Journal 1 (Spring 1990): 87-104.

¹¹For evidence that such tax incentives not cost-effective in promoting business development, see David W. Rasmussen, Marc Bendick, Jr., and Larry C. Ledebur, "Evaluating State Economic Development Incentives from a Firm's Perspective," Business Economics 17 (May 1982), pp. 23-29.

base eligibility on a range of indicators of distress, they do not do require these indicators to be present simultaneously.¹²

Community Participation in Decision-making. Central to CED's strategy for rebuilding inner city communities is the participation of community residents, typically through community based institutions, in establishing priorities and shaping the direction of community development. Some of the legislative proposals explicitly promote such participation. For example, the Commercial Revitalization Tax Credit Act and the Enhanced Enterprise Zone Act both require that, in allocating benefits under their Acts to localities, state agencies consider the degree to which a project contributes to the implementation of a local strategic plan that was devised with citizen participation, as well as the active involvement of residents and nonprofit groups within the eligible area.¹³ However, other proposals seem to emphasize the solo development of isolated business ventures that CED found relatively

¹²The Urban Regulatory Relief Act proposes that benefits under the Act be extended to Census tracts with more than 33 percent of their population falling within the federal definition of poverty, or in which at least 45 percent of out-of-school males worked less than 26 weeks in a year, or where 36 percent or more of families with children are headed by a single parent, or in which at least 17 percent of residents received public assistance. It would be more consistent with CED's approach to limit eligibility to areas where some or all of such criteria were met simultaneously.

¹³In the same spirit but somewhat more ambiguously, the Urban Regulatory Relief Act requires participation of a demographic cross section of the city's population and of private civic organizations in selecting federal regulations for which waivers should be sought.

ineffective in past efforts at revitalizing distressed communities.¹⁴

The Executive Summary of CED's report, which I would like to submit for the record, is attached to this written testimony.

¹⁴For alternatives to such solo efforts -- that is, for examples of inner city business development that both create and capitalize on the community development linkages that CED emphasizes -- see Marc Bendick, Jr. and Mary Lou Egan, "Linking Business Development and Community Development in Inner Cities," Journal of Planning Literature 8 (August 1993), pp. 3-19.

Rebuilding Inner-City Communities:

A New Approach to the Nation's Urban Crisis



**A Statement by the Research and Policy Committee of the
Committee for Economic Development**



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Rebuilding Inner-City Communities:

A New Approach to the Nation's Urban Crisis

RESPONSIBILITY FOR CED STATEMENTS ON NATIONAL POLICY

The Committee for Economic Development is an independent research and policy organization of some 250 business leaders and educators. CED is nonprofit, nonpartisan, and nonpolitical. Its purpose is to propose policies that bring about steady economic growth at high employment and reasonably stable prices, increased productivity and living standards, greater and more equal opportunity for every citizen, and improved quality of life for all.

All CED policy recommendations must have the approval of trustees on the Research and Policy Committee. This Committee is directed under the bylaws which emphasize that "all research is to be thoroughly objective in character, and the approach in each instance is to be from the standpoint of the general welfare and not from that of any special political or economic group." The Committee is aided by a Research Advisory Board of leading social scientists and by a small permanent professional staff.

The Research and Policy Committee does not attempt to pass judgment on any pending

specific legislative proposals; its purpose is to urge careful consideration of the objectives set forth in this statement and of the best means of accomplishing those objectives.

Each statement is preceded by extensive discussions, meetings, and exchange of memoranda. The research is undertaken by a subcommittee, assisted by advisors chosen for their competence in the field under study.

The full Research and Policy Committee participates in the drafting of recommendations. Likewise, the trustees on the drafting subcommittee vote to approve or disapprove a policy statement, and they share with the Research and Policy Committee the privilege of submitting individual comments for publication.

Except for the members of the Research and Policy Committee and the responsible subcommittee, the recommendations presented herein are not necessarily endorsed by other trustees or by the advisors, contributors, staff members, or others associated with CED.

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*Voted to approve the policy statement but submitted memorandum of comment, reservation, or dissent. See page 67.

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Purpose of This Statement

Whatever threatens the health of America's major urban centers menaces the prosperity and social stability of the entire nation. Recognizing this connection, the Committee for Economic Development (CED) has repeatedly examined the problems of the nation's urban areas. Two seminal studies were released in 1959: *The Changing Economic Functions of Central Cities* and *Metropolis Against Itself*.

These works have been followed by many policy statements: *Reshaping Government in Metropolitan Areas* (1970), *Training and Jobs for the Urban Poor* (1970), *Education for the Urban Disadvantaged* (1971), *Social Responsibilities of Business Corporations* (1971), *Reducing Crime and Assuring Justice* (1972), *An Approach to Federal Urban Policy* (1977), *Jobs for the Hard-to-Employ: New Directions for a Public-Private Partnership* (1978), *Public-Private Partnership: An Opportunity for Urban Communities* (1982), *Investing in Our Children: Business and the Public Schools* (1985), *Children in Need: Investment Strategies for the Educationally Disadvantaged* (1987), *The Unfinished Agenda: A New Vision for Child Development and Education* (1991), and *Putting Learning First: Governing and Managing the Schools for High Achievement* (1994).

The present statement focuses on distressed communities within the nation's cities and on a point not centrally addressed in the previous documents: Distressed neighborhoods are not simply the home of individuals with severe social and economic problems. The *concentration of problems* within these communities and the communities' *shortage of problem-solving resources* make problems more intractable. Whereas previous CED statements have con-

sidered urban problems one at a time, this statement examines *social capital* — the relationships and norms that link individuals to one another and to institutions — as a resource in addressing any of them. The concept of *community* and policies to rebuild it form this statement's central thrust.

In focusing on distressed neighborhoods, the subcommittee recognizes that it is not addressing all issues plaguing large cities. Fiscal shortfalls, unemployment, inefficient municipal governance, family dissolution, crumbling infrastructure, inadequate transportation, and unfunded federal mandates pose difficult and important policy dilemmas. Many problems facing inner-city residents arise from deficiencies in key public systems, notably welfare and education, whose policies are largely established outside distressed communities. But efforts to address these broader issues will have little impact on inner cities unless the *community building* on which the present statement focuses is undertaken as well. Although both categorical problem solving and community building are necessary to produce improvements and neither alone is sufficient, the latter has been relatively neglected. The purpose of this statement is to put community building at the center of the nation's urban agenda.

ACKNOWLEDGMENTS

On behalf of CED's Research and Policy Committee, I wish to express our deep appreciation to William S. Edgerly, Chairman of the Foundation for Partnerships and former Chairman of State Street Bank and Trust Company,

for the energy and insights he has brought to the CED subcommittee that developed *Rebuilding Inner-City Communities*. Our gratitude also goes to the outstanding group of business leaders and educators, listed on page x, whose service on the subcommittee contributed so materially to this endeavor.

Special thanks are due to the CED staff and advisors who provided the research and analysis on which our recommendations are based and whose writing skills are reflected in this powerful statement: project director Marc Bendick, Jr.; analysts Terra L. Geiger and William Ryan; project counselor Van

Doorn Ooms, CED Senior Vice President and Director of Research; and project editor Claudia P. Feurey, CED Vice President and Director of Communications and Corporate Affairs. Finally, I would like to acknowledge the important financial and intellectual contributions of the foundations and other organizations, listed on page 68, that have so generously supported this CED project.

Josh S. Weston
Chairman
Research and Policy Committee

Chapter 1

Introduction and Summary of Recommendations



RETHINKING THE NATION'S URBAN PROBLEMS

America's inner cities have not wanted for attention. From turn-of-the-century settlement houses for immigrants through the Model Cities program of the 1960s, the Urban Development Action Grants of the 1970s, the enterprise zones of the 1980s, and the empowerment zones of the 1990s, the nation has poured much earnest hope and billions of dollars into urban improvement.

Yet, significant portions of our cities continue to decay. In these neighborhoods, the prevailing environment is often one of fear and despair. The sound of gunshots and the threat of violent victimization are everyday realities. Children aspire not to be doctors or lawyers but only to live to adulthood. Unemployment regularly surpasses 40 percent, and high school dropout rates may approach 80 percent. Less than 20 percent of households include two parents, a third are dependent on public assistance, and half live below the poverty line. Daily life is consumed by mere survival, and opportunities for a better future appear inaccessible.

The failure of past efforts at urban revitalization has so discouraged leaders of the public and private sectors that many have turned their attention elsewhere. But while most of the nation has been looking away, residents and grassroots institutions in many decaying neighborhoods have quietly begun to turn their communities around. Community development corporations (CDCs) in Miami's Liberty

City and Newark's Central Ward have built their neighborhoods' first supermarkets in over a decade. Community patrols in Washington, D.C., have closed open-air drug markets. An employment program in San Antonio has connected poor and welfare-dependent residents to high-quality jobs. Thousands of low-income families have moved into decent housing. Such community-based successes offer new hope that the complex problems of the inner cities *can* be solved. *Something is working.*

These little-heralded efforts must now be recognized and amplified through the support of powerful government, business, and philanthropic institutions. *Community groups* offer indispensable institutional and human resources, a knowledge of neighborhoods and their problems, and the trust and participation of residents. *Outside institutions* possess financial resources, technical knowledge and skills, and political power. *Partnerships* between these two complementary sources of strength represent the nation's best hope for revitalizing inner-city communities.

This policy statement does not address in detail each of the problems crushing inner-city communities today. Violence and crime, drugs, unemployment, teen pregnancy, welfare dependency, domestic violence, inadequate housing, crumbling infrastructure, inefficient municipal governance, deficient transportation, fiscal shortfalls, and limited health care and family planning pose their own difficult policy dilemmas, and each must be addressed in its own right.

Instead of pursuing those subjects, however, this statement argues that unless we invest in the *community* prerequisites for inner-city revitalization, no effort to solve any of these problems will have more than marginal impact. On this premise, the statement proposes a watershed change in how the public, private, and philanthropic sectors approach each problem in inner-city neighborhoods. **Community building alone will not revitalize distressed communities, but no initiative will succeed without it.** This is the core of this statement's approach to the nation's urban problems.

THE NATION'S STAKE IN ITS INNER CITIES

Our nation's continuing failure to bring its distressed neighborhoods into the national mainstream imperils the American dream for residents of the inner city *and* for the country as a whole. As Henry Cisneros, Secretary of the Department of Housing and Urban Development (HUD), has observed, this nation and its cities have "interwoven destinies."¹

Inner-city distress presents an urgent challenge to the nation. Within America's 100 largest cities, distressed and at-risk areas account for between 11 percent and 33 percent of all neighborhoods and between 6 million and 17 million residents. Many other urban neighborhoods remain viable and attractive places to live; however, if urban decay is left unchecked, it threatens to spread to them as well.

For many urban Americans, the primary "solution" to inner-city decay has been to flee. As middle-class residents and businesses have moved toward the suburbs, policy makers and others have hoped that the problems left behind, if not solvable, were at least containable. But as the size, tax burden, and violence of distressed neighborhoods have continued to grow, the futility of containment has become increasingly apparent. The problems of the inner city cannot be isolated. They reach and damage the larger society in at least five ways:

- **Inner-city blight undermines the fiscal and operational health of major cities.** Distressed neighborhoods contribute little to a city's tax base yet impose heavy demands on public services. This imbalance undermines the fiscal and operational integrity of virtually all the nation's major cities. The resultant physical decay, crime and fear, and declining quality of life are contagious. As they spill out of distressed neighborhoods into surrounding areas, they replicate the same imbalance, accelerating the exodus of businesses and residents and further diminishing property values. The erosion of city governments' financial and operational capacities becomes dangerously self-accelerating.
- **Inner-city distress threatens important economic assets.** Even in an era of dramatic changes in information and communications technology, the nation's large cities and their downtown business districts continue to offer unique environments for many economic and social activities. Central cities contain huge investments in immobile, productivity-enhancing infrastructure and unique cultural institutions, and they anchor the economic growth proliferating in their suburbs.² Our national economic prosperity depends in no small part on these threatened assets.
- **Inner-city distress weakens the nation's human resources.** Demographic trends dictate that American employers increasingly rely for their workforce on members of minority groups and recent immigrants, groups heavily represented in inner-city communities. Nearly 40 percent of the nation's African-American children, 32 percent of its Latino children, and 36 percent of its students with limited English proficiency are being educated in only 47 large-city school systems.³ Many of these future adults emerge from inner-city schools with inadequate educational preparation, reflected in staggering rates of functional illiteracy and school dropout rates as high

as 80 percent. The implications for a productive workforce are troubling; the implications for a well-informed citizenry are dire.

- **The costs of inner-city problems fall on taxpayers wherever they reside.** All the nation's taxpayers pay for the problems of distressed inner cities through government expenditures for welfare, law enforcement, social services, and remedial education. Additional costs accrue to all consumers in forms such as insurance and security costs, tuition for private education, and prices for goods and services that reflect firms' increased costs of doing business. One estimate of the damage to large urban economies from crime alone is \$50 billion annually; special federal expenditures for inner cities add another \$75 billion.⁴
- **The isolation of distressed urban neighborhoods conflicts with our national ideals.** Equality of opportunity is a fundamental principle of American society and a right of all Americans. Extreme differences in the range of life chances between persons in one segment of American society and another, one racial or ethnic group and another, or one part of an urban area and another conflict harshly with this ethical standard.

For all these reasons, the persistence of distressed urban areas is dangerous to America's future. We urge the nation to renew its commitment to addressing the serious social and economic problems concentrated in its distressed inner-city neighborhoods.

A NEW UNDERSTANDING OF INNER-CITY DISTRESS

This new commitment must not, however, result in more programs shaped as they have traditionally been shaped, more dollars spent as they have traditionally been spent.

Renewed efforts should reflect a new understanding of the nature of distressed communities and a sea change in the way their problems are addressed.

This new understanding begins with observations about *nondistressed* communities, communities that foster rather than inhibit positive outcomes among residents. Such communities encompass many relationships and institutions by which residents share information, work toward common goals, and acquire needed support. They are not isolated from the society outside their borders, and residents maintain and utilize resources and contacts from across their metropolitan areas. Through these mechanisms, formal and informal, healthy communities identify and address problems, reinforce social norms, and promote productive lives for individuals and their families.

In recognition of the importance of these processes, this statement focuses on the *community* as a crucial but neglected resource for inner-city revitalization. Specifically, Chapter 2 calls attention to *social capital*, the attitudinal, behavioral, and communal glue that holds society together through relationships among individuals, families, and organizations. **Without social capital to sustain problem solving within distressed communities and to link community residents to the broader society, efforts to address specific problems of individuals, families, and neighborhoods will make little progress.**

Inattention to community is evident throughout traditional approaches to the economic and social ills of distressed neighborhoods. Over the years, numerous public and philanthropic initiatives have addressed such concerns as poverty, welfare, unemployment, inadequate education, substandard housing, and crime. But past efforts have tended to consider these problems one at a time. That approach ignores the crucial fact that the co-existence of problems within a neighborhood creates a *mutually reinforcing* process of decay that limits the effectiveness of each narrowly focused initiative.

In a related fashion, most past efforts have viewed residents of distressed neighborhoods as passive recipients of treatment. Many efforts to renovate housing, control crime and drugs, or increase employment have been developed and implemented with little participation from the individuals whose problems they are trying to solve and little regard for how they live and interact. They emphasize individuals' deficiencies rather than their problem-solving skills and promote dependency rather than self-sufficiency. Failure to enlist local institutions and citizens as *partners in problem solving* leaves essential resources untapped, ignores local priorities, and misses opportunities to strengthen communities' own problem-solving capacities.

In part, such failures reflect a belief that the appropriate way to address the problems of distressed neighborhoods is to have residents move to more desirable locations. Our focus on stabilizing and revitalizing troubled neighborhoods is not intended to denigrate opportunities for inner-city residents to reside in other localities throughout central cities or suburbs. Such mobility has been traditional for generations of Americans moving up the economic and social ladder, and each year some inner-city residents follow in their footsteps. However, for most inhabitants of distressed inner cities, such mobility is only a distant dream. Limited incomes, ties to friends and family, racial discrimination, and other factors effectively prevent many from leaving their neighborhoods, however dangerous and deficient. Realistically, millions of Americans will either find their way out of poverty and disadvantage within their inner-city communities or not at all.

SOLVING PROBLEMS BY REBUILDING COMMUNITIES

Reflecting these considerations, CED concludes that **the nation should invest in the community fabric of inner-city neighborhoods where local resources are over-**

whelmed by concentrated problems. Past efforts have tried to solve the social and economic problems of neighborhoods and their residents without the community prerequisites for these initiatives' success. Instead, when addressing the problems of distressed inner-city neighborhoods, the public and private sectors should consistently adopt a community-building style of problem solving.

Chapter 3 presents impressive examples of community-building efforts that work: training and employing inner-city workers, developing retail services, developing and managing quality low-income housing, cutting crime and fear, and solving other inner-city problems. These examples define what the community-building style of problem solving means in practice:

- **Neighborhood residents participate in efforts to identify and resolve neighborhood problems.** As with current efforts within corporations to decentralize management and empower workers, grassroots participation improves the effectiveness of initiatives. Simultaneously, it develops residents' networks, norms, and skills that become resources for addressing other problems. In this sense, community building is not a single event but an ongoing process.
- **Community-based institutions — community development corporations, schools, churches, and others — are frontline service deliverers for public and private initiatives within their neighborhoods.** Again, the goal is dual: to enhance the effectiveness of individual programs and to strengthen these institutions for further community building.
- **Problem-solving efforts are comprehensive.** The multiple, mutually reinforcing problems within distressed neighborhoods and families will quickly overwhelm narrowly focused efforts.
- **Some neighborhoods may be too distressed for community building to succeed unless accompanied by major changes in the**

physical and social environment. Community building reflects a realistic understanding of neighborhood circumstances, conditions, and resources. When this understanding suggests that basic social or physical changes in the neighborhood are necessary for community building to succeed, these changes are part of the community-building process.

Significant community-building initiatives are now under way in many of America's inner cities. However, these efforts are too often isolated and modest in scale. As Chapter 4 discusses, the challenge facing the nation is to provide the resources and commitment to "scale up" these exemplary endeavors into a sustained national movement. The key to this process is to expand the financial, technical, and political support for local initiatives from citywide, regional, and national sources.

SUMMARY OF RECOMMENDATIONS

THE GOVERNMENT ROLE

No effort to revitalize distressed inner cities will proceed very far or very fast without the support of the federal, state, and local governments. The public sector must be an active partner in community-building efforts, aggressively implementing policies that support community building and removing those that impede it.

- Federal, state, and local governments should control the weapons that disrupt community life. Some neighborhoods in this nation are so violent and menacing that terms such as *community building* and *shared civic values* are meaningless. No community organization can thrive on streets where children murder each other without remorse and where gangs, drugs, and violence have replaced family, work, and the rule of law. No social capital can burgeon in neighborhoods where residents are

afraid to leave their homes to go to the grocery store, recreational programs, or community meetings. No enhanced connections between inner-city neighborhoods and the mainstream society are realistic when outsiders refuse to enter the neighborhoods and fear is the dominant emotion many Americans feel toward their residents. Where civil order has broken down, local, state, and national governments must restore a basic level of safety and a sense of security.

The proliferation and easy availability of weapons for criminal purposes is a significant contributor to civil instability within inner-city neighborhoods and the fear-based separation between these neighborhoods and the broader society. The most important precondition for community building that federal, state, and local governments can provide is to eliminate the national plague of cheap handguns and assault weapons and to take firearms out of the hands of juveniles and criminals. Such efforts have been advanced by recent federal legislation mandating waiting periods for the purchase of weapons, banning selected assault weapons, and enhancing data systems tracking weapons purchases. At the federal, state, and local levels, such efforts should be continued through vigorous enforcement of existing gun control laws and expanded through legislation imposing substantially broader restrictions on weapons and ammunition.

- A second major disrupter of inner-city communities is the traffic in illegal drugs. This pernicious trade leaves shocking numbers of inner-city young people dead or scarred by criminal records; addicts unable to function as learners, earners, parents, or community members; and community interaction disabled by the fear and reality of violence.

Current antidrug efforts rely primarily on interdiction to prevent drugs entering

the country and incarceration to deter drug distribution and abuse. These efforts do not effectively reduce the trade in illegal drugs in inner cities. Moreover, the incarceration of drug abusers removes them from the community and scars them with criminal records without addressing their fundamental problem of addiction. In contrast, a community-building approach to the drug issue would emphasize community supports and opportunities for residents, especially young people, to avoid drug use. In addition, rather than sending drug abusers to prison, it would help them overcome their addiction so that they may become productive members of their communities. **Federal, state, and local governments should reduce the adverse impact of illegal drugs on community life. In particular, they should shift resources from the current incarceration-oriented approach to preventing drug abuse through education and other means and rehabilitating addicted individuals.**

- **Across all programs and policies that have an impact on inner cities — housing, criminal justice, environmental management, social services, and others — federal, state, and local governments should review and modify policies that concentrate social and economic problems in distressed communities.** Through a range of explicit and implicit decisions, the public sector has often promoted the concentration of distressed populations and undesirable facilities in small geographic areas, overwhelming the resiliency of many inner-city communities. For example, in public housing, the criteria used to locate housing sites and select tenants have tended to colocate large numbers of severely troubled families in already-distressed or threatened neighborhoods. Instead, *deconcentration* should be promoted through scattered-site public housing and housing mobility programs and recruiting two-parent, employed families as public housing tenants.

- **Federal, state, and local governments should continue to eliminate racial, ethnic, and other forms of discrimination in employment, credit, and housing.** Discrimination in many aspects of daily life continues to deny many inner-city residents opportunities to improve their lives, to perpetuate and concentrate poverty in inner-city communities, and to thwart connections between inner-city communities and mainstream society. Public agencies should vigorously enforce antidiscrimination laws targeting redlining in lending and discrimination in employment, housing, and public accommodations. At the federal level, these laws include the Civil Rights Act of 1965, the Community Reinvestment Act, the Fair Housing Act, and the Equal Credit Opportunity Act. Additional legislation should extend data gathering on credit practices to sectors of the financial services industry not covered under the Community Reinvestment Act.
- **Federal, state, and local governments should encourage and participate in partnerships that link inner-city residents and their community-based organizations to support from the philanthropic sector, government, and the business community.** Community-based initiatives within distressed neighborhoods will not achieve substantial scale without partnerships with powerful public and private actors from outside their neighborhoods to provide financial, technical, and political support. **To promote these partnerships, the public sector should routinely consult community-based organizations on decisions affecting their neighborhoods; join ad hoc coalitions with community groups to implement specific projects; participate in ongoing partnerships that bring together the public, business, philanthropic, and community sectors; and require collaborative planning and nongovernment matching for publicly funded initiatives.** Through such means, local, state, and fed-

eral governments can make such partnerships important institutions and can make the partnership approach standard in addressing the problems of distressed inner-city communities.

- **Federal, state, and local governments should expand their use of community-based organizations to implement programs and deliver services in inner-city communities.** Community-based organizations are often particularly effective at delivering services because of their relationships and reputation within the community, understanding of community needs, ability to coordinate multiple programs into comprehensive packages, and employment of local residents. They may be willing to operate in neighborhoods where other organizations are not. At the same time, the revenues and experience community organizations gain through such roles can strengthen them as resources for addressing other community problems. **The federal, state, and local governments should aggressively seek opportunities to employ community-based organizations as frontline implementers of public initiatives.** For example, government agencies should increasingly contract with community-based organizations to deliver publicly funded services.
- **When implementing programs directly rather than through community groups, public agencies should operate in a community-building style.** Currently, public agencies tend to operate in isolation from each other, frustrating community-based attempts to provide comprehensive services to address residents' multiple needs. **A hallmark of the community-building style is aggressively to seek opportunities to integrate previously uncoordinated services and deliver comprehensive services to residents by such means as co-location of programs administered by different agencies, case management to integrate assistance to individuals or families** with multiple problems, and use of common eligibility criteria for multiple programs. **A second hallmark is establishment of administrative boundaries and service areas (such as police precincts) to coincide with neighborhoods.**
- **The public sector should invest in strengthening the capacity of community-based organizations.** Sustained community building occurs primarily through ongoing institutions such as community development corporations, schools, and churches. Some distressed inner-city localities enjoy few local leadership institutions. In other communities, such organizations exist but make only limited contributions because of their constant struggle for survival. **Public funds from such sources as Community Development Block Grants should be used to enhance the organizational strength of community-based institutions.** Typical needs in this regard are staff development, implementation of efficient management systems, and enhancement of organizational stability through multiyear funding not tied to specific projects.
- **The federal government should expand the Low-Income Housing Tax Credit and enact a parallel mechanism to support commercial and industrial development in distressed communities.** Participation in projects by investors from outside distressed neighborhoods brings capital into the inner city and builds connections between these communities and mainstream society. Each year, the federal Low-Income Housing Tax Credit connects thousands of corporate, individual, and institutional investors and billions of dollars to projects in distressed neighborhoods. A parallel mechanism covering nonhousing projects would have similar community-building benefits while contributing to commercial and industrial development in distressed communities.

- **The public sector should encourage and support research to improve the effectiveness of community-building activities.** These efforts should include evaluation of the impact of community-building efforts, dissemination of "best practices" to increase the efficiency of community-building activities, and measurement of conditions within inner-city areas.

THE CHALLENGE TO BUSINESS LEADERSHIP

Not all companies have a direct stake in central cities, even in the cities near which they are located. However, all have a stake in the nation's broader economic and social health. Alarmed by the threat to social order, the injustice, and the economic waste in the nation's distressed inner cities, business leaders should be among the nation's most vocal advocates and active participants in urban community building.

The managerial skills, strategic vision, and financial and political resources commanded by senior executives of the nation's major corporations make their participation particularly crucial to these efforts. Diversity among companies dictates that the form of support for community building will vary, and executives should tailor their involvement to reflect the strengths, market position, and resources of their individual companies. Various avenues for business involvement are readily available:

- **Executives should encourage their companies to use emerging inner-city resources in their business activities.** For almost all firms, distressed urban neighborhoods may offer locations for plants or offices, pools of potential employees, or minority-owned subcontractors and suppliers. For some firms, these neighborhoods also offer potential consumer markets. As community-building efforts create more such opportunities and a more hospitable business environment within inner-city areas, mainstream firms outside the

neighborhoods should reconsider these commercial possibilities. Unless senior executives lead their firms to rethink these opportunities, many businesses will continue to assume that they do not exist.

- **Executives and their firms should join local and national systems of support for inner-city community building, such as national community development intermediaries and metropolitan-wide housing partnerships.** Like the public sector, the corporate community is an essential member of multisector partnerships to support community building. Historically, business leaders have played prominent roles in civic partnerships to boost downtown development, attract sports franchises, and support cultural institutions. Corporate executives should exercise the same leadership in inner-city projects and institutions, both locally and nationally.
- **As community leaders, business executives should encourage the reshaping of public and nonprofit programs to reflect the community-building approach.** As members of the boards of civic, educational, and human service organizations and as political opinion leaders, corporate executives can influence public and nonprofit institutions to allocate increased resources to distressed urban neighborhoods, to enhance the involvement of local residents and community institutions in service delivery, to identify and train community leaders, and to encourage policy changes to remove impediments to community building.
- **Business leaders should guide their corporate charitable activities and community involvement toward inner-city community building.** Current corporate efforts to be good citizens in their operating locations take a variety of forms, from cash grants to employee involvement, for a range of worthy causes. Distressed inner-city neighborhoods should become an increas-

ing object of these efforts, and the community-building style should shape the involvement. For example, greater priority might be given to investment in Low-Income Housing Tax Credits targeted to inner-city neighborhoods, financial support that strengthens community leadership institutions, and loaned executives and other efforts that foster personal contact with inner-city residents and organizations.

* * *

Social capital, in and of itself, is not sufficient to reverse urban decay. Inner-city com-

munities face many specific problems that must be addressed: too few jobs, failing schools, broken families, violence, and drugs. But no effort to provide jobs, control crime, or improve the lives of children will succeed in America's urban environments if poor and disadvantaged Americans live in isolation from the larger national community, from each other, and from shared national values, purpose, and hope. Distressed, isolated urban communities can and must be brought back into the social and economic mainstream. Inner-city community building offers a new, effective way to pursue this vital national goal.*

*See memorandum by PRES KABACOFF (page 67).

Chapter 2

Inner-City Problems from a Fresh Perspective



This policy statement reflects an understanding of inner-city distress that differs substantially in emphasis from how these issues are often examined. This different perspective begins with the definition of the problem we are addressing.

WHAT IS A DISTRESSED NEIGHBORHOOD?

For many Americans, an intuitive definition of *distressed communities* is revealed in a simple action. Empty stores? Gang graffiti spray-painted on walls? Idle men on street corners? Driving into such a neighborhood, middle-class, suburban dwellers promptly lock their car doors. Right or wrong, this reaction reflects a sense that they have entered a world separate from, and threatening to, "mainstream" America.

What is the source of this sense of social chasm? It does not reflect simply being in a large city, for many urban neighborhoods are pleasant and prosperous. Nor is it associated with low income alone, for many neighborhoods of modest means are orderly and welcoming. Nor is it always derived from the presence of racial and ethnic minorities, for many minority-dominated neighborhoods are middle class and stable.

Instead, the defining characteristic of distressed neighborhoods is the *simultaneous* presence of *multiple* social problems: poverty and joblessness, crime and violence, family instability and welfare dependency, and depressed property values and physical blight. Individually, each of these problems rises to disastrous

levels in some inner-city areas (see "The Multiple Problems That Bombard Distressed Inner-City Communities," pages 12 and 13). But what triggers fear in a passing stranger and defines the distressed inner-city communities that are the subject of this statement is that these problems coexist, mutually reinforce each other, and cumulatively overwhelm the mechanisms of social control. Thus, inner-city distress is about more than poverty or individual problems; it is about the collapse of a community's ability to cope with problems.

To measure this collapse, social scientists often begin with the presence of multiple problems. For example, one research effort defines distressed neighborhoods as those census tracts that are substantially above the national average simultaneously on four indicators: the proportion of households in poverty, the proportion of households headed by female single parents, the proportion of households receiving public assistance, and the prevalence of joblessness among adult males.

The Appendix reports the results of applying these four criteria to 1990 census data for the 100 largest cities in the nation.¹ These data confirm that not all or even most neighborhoods² within these cities are distressed. On average, in these 100 cities, distressed neighborhoods are home to only 11.1 percent of a city's population; that proportion exceeds 25 percent in only 8 cities: Detroit (47 percent), Flint (38 percent), Buffalo (33 percent), Cleveland (31 percent), New Orleans (29 percent), Newark (28 percent), Shreveport (27 percent), and St. Louis (25 percent). Nationwide, about 5.7 million persons, or 2.3 percent of the U.S.

population, reside in these neighborhoods.

This set of neighborhoods, identified under a stringent definition of distress, represents the most troubled urban areas. Research suggests that for each of these neighborhoods, approximately two additional neighborhoods exhibit many of the same problems to a lower degree.³ Often, these additional areas are at the margin of decline in both a social and a geographic sense and are likely to complete the process of decay if left unaided. That fate is by no means certain, however, so we distinguish them from *distressed neighborhoods* by referring to them as *threatened neighborhoods*. Whereas distressed areas account for about 11 percent of all neighborhoods in the nation's 100 largest cities, distressed and threatened areas together account for about 33 percent, or about 7 percent of the nation's population.

Whether we focus only on neighborhoods that are already distressed or include areas that may become so, these data offer an element of hope: The nation's seemingly intractable urban problems can be conquered. Many have given up on our cities and turned their backs on these neighborhoods, believing that the problems are too overwhelming. They are wrong. The scale of distressed urban neighborhoods is relatively limited in comparison with the size of the nation and its urban areas. America need not despair about its distressed inner cities.

However, the nation should be seriously alarmed. At least 1 distressed neighborhood is present in 9 out of 10 of America's 100 largest cities. Distressed and threatened neighborhoods together contain more than 17 million persons, which is more than the total population of Australia or the Netherlands. More than 1.1 million persons in New York City alone and more than 100,000 in each of 13 additional cities are condemned to the living hell of distressed communities.

Even more alarming than these numbers, however, is the fact that these areas, if left to fester, will continue to grow, engulf adjacent communities, and sweep additional Americans into their maelstrom.⁴ The distressed-area

population that in 1990 totaled 5.7 million had stood at only 1 million 20 years earlier. This reflects a compound growth rate of approximately 9 percent annually. The number of distressed census tracts that in 1990 had grown to 1,850 stood at only 296 in 1970, a compound annual growth rate of almost 10 percent. The fate of America's urban areas hangs in the balance in its distressed and threatened neighborhoods.

The measures of distress cited here are not perfect. On the one hand, they fail to convey the horror of daily life in the very worst neighborhoods, such as the Robert Taylor Homes public housing project in Chicago (see "Model Tenements Gone Awry: Chicago's Robert Taylor Homes," page 14). On the other hand, any dividing line between distressed and nondistressed is arbitrary at best. Moreover, census tracts, which are the basis for the figures just presented, may correspond to several "neighborhoods" as perceived by the people who live there, some distressed, some not. Nevertheless, these measures provide a reasonable indication of the scale of decay within America's major urban areas today. Throughout this statement, they serve as an operational definition of the problem we are addressing.

THE SOCIAL CAPITAL DEFICIT

Although the incidence of multiple problems can be used to identify distressed neighborhoods, these problems are, in an important sense, symptoms of a more fundamental condition. Poverty, unemployment, welfare dependency, physical blight, and crime and violence are not merely serious problems that overlap geographically. An integral — indeed, a defining — aspect of distressed urban neighborhoods is *mutual reinforcement* or *negative interaction*, in which each problem intensifies other problems and hampers their solution, making the whole worse than the sum of its parts.⁵ Here is a highly simplified illustration of this process: Joblessness leads to low incomes, which lead to low rents, which lead to

inadequate building maintenance and security, which lead to crime and fear, which lead to middle-class flight, which leads to a decline in school quality, which leads back to joblessness. Challenged to unravel this Gordian knot, the nation might understandably be baffled about where to begin.

The most pernicious consequence of such negative interaction is that these multiple problems themselves weaken the com-

munity's mechanisms of social coping needed to address them. Among the most important of these mechanisms is social capital.

The term *social capital* refers to something most Americans living outside distressed neighborhoods experience in their daily lives: *the resources embedded in social relations among persons and organizations that facilitate cooperation and collaboration in communities.*⁶ Like physical and human capital, social capital is a pro-

THE MULTIPLE PROBLEMS THAT BOMBARD DISTRESSED INNER-CITY COMMUNITIES

JOB READINESS AND JOB AVAILABILITY⁷

- In minority-dominated high schools in central cities, the dropout rate may rise as high as 80 percent.
- Even those who graduate are often unprepared for work. One study in Chicago found that 25 percent of high school graduates read at no more than the sixth-grade level.
- In 1990, 81 percent of young dropouts living in distressed urban areas were not employed.
- More than 40 percent of adult men in distressed inner cities did not work in 1990, and many others worked only sporadically or part-time.

CRIME, VIOLENCE, GANGS, AND DRUGS⁸

- America's urban areas suffer a murder every 22 minutes, a robbery every 49 seconds, and an aggravated assault every 30 seconds.
- Between 1979 and 1989, the violent crime rate in central cities increased an average of 33 percent. Chicago's increase was 173 percent. In 1993, one-third of homicides in New Orleans, the city with the highest homicide rate in the country, took place in the city's distressed public housing projects.

- In a survey of first and second graders in Washington, D.C., 31 percent had witnessed shootings, and 39 percent had seen dead bodies.
- Many inner-city residents fear leaving their homes after dark or letting their children play or sleep near windows. Forty percent of low-income urban parents worry "a lot" that their children will be shot, compared with 10 percent of all parents.
- In some distressed public housing projects, more than one resident in ten is a crime victim each year.
- One of every 24 black males in the nation will have his life ended by homicide. Nationwide, on any given day, 1 in 4 black men between the ages of 20 and 29 is under the control of the criminal justice system. A study in Baltimore found that 56 percent of black men ages 18 to 35 were under the control of the criminal justice system or being sought on warrants.
- In 22 cities, 60 percent of arrestees for violent crimes tested positive for at least one illegal drug.
- A survey by the U.S. Department of Justice found that 22 percent of high school students in crime-ridden neighborhoods own a gun.
- In inner-city neighborhoods, handguns,

ductive resource that makes possible otherwise unachievable results and enhances the productivity of other resources. For example, educated parents (human capital) benefit their child if parents and child spend time interacting (social capital).

Social capital exists in three principal forms: First, *information sharing* uses social relations to convey valuable information. Thus, a parent seeking child care may consult friends,

relatives, or neighbors who have experience with local child care providers. Second, *trust* engendered through social relations establishes *generalized reciprocity* as a norm within a community: "I'll do this for you now because you (or someone else) will assist me later." This process does not require specific reciprocity; rather, it is a shared expectation that if residents need help, they will receive it. Third, *norms and values that maintain social order* —

military-style rifles, and shotguns are often available for less than \$100 on the street, about three hours' wages for a street-level drug dealer.

- Rates of physical and sexual child abuse are six times higher for children in families with income under \$15,000 than for other children; adults who were abused as children are significantly more likely to be arrested for a violent offense than those who were not.

POVERTY, FAMILY DISSOLUTION, AND WELFARE DEPENDENCY⁹

- Half of all residents of distressed neighborhoods live below the federally defined poverty threshold (in 1993, \$14,763 for a family of four).
- Approximately 60 percent of households with children in distressed inner-city neighborhoods are headed by women; in some public housing projects, this proportion is above 95 percent. Much of this is due to a high rate of out-of-wedlock births. Nationwide, 65 percent of black births are to unmarried women, about a third of these to teenagers. Of unmarried teenagers who give birth, about half are likely to receive public assistance within four years of the birth.
- Nationally, nearly 50 percent of female-headed families live below the poverty

level, almost seven times the rate for two-parent families.

- Approximately 36 percent of households in distressed inner cities received public assistance in 1990, nearly five times the national average.
- Among African-American children under the age of 3 who live in urban areas, 52 percent lived in poverty in 1990, the great majority in single-parent families.

PHYSICAL BLIGHT AND INADEQUATE HOUSING¹⁰

- In the Sandtown-Winchester neighborhood of Baltimore, of 5,000 structures in the area, 600 are vacant, and 3,000 need rehabilitation or wrecking. A broader study of 14 cities found rates of building abandonment reaching 20 percent.
- In large metropolitan areas nationwide, there are about two prospective low-income tenants for every low-rent unit. As a result, some lack shelter of any kind; the Urban Institute estimates the number of homeless in America at 600,000 each night. Many others live in overcrowded and substandard housing units.
- In 1989, among 5.1 million low-income renters nationwide, nearly half of them in central cities, 60 percent live in seriously substandard housing or pay more than half their income for rent.

MODEL TENEMENTS GONE AWRY: CHICAGO'S ROBERT TAYLOR HOMES¹¹

Given the spirit that gave birth to public housing in America, the current condition of many of Chicago's housing projects is ironic. When the Federal Housing Act of 1949 authorized construction of 800,000 units of low-rent housing nationwide, Robert Taylor, then director of the Chicago Housing Authority, looked forward to building his vision of model tenements: racially and economically integrated communities fostering economic and social uplift in spacious apartments in suburban neighborhoods.

Chicago's City Council, however, replaced Taylor's plan with one of its own. Black migrants from the rural South, lured by unskilled manufacturing jobs, were the most likely residents of public housing. The council placed the projects in poor, all-black neighborhoods. Construction of 16-story high-rise buildings minimized land costs. Residents were to be served by schools, stores, and churches in immediate proximity to the projects, limiting contact with surrounding neighborhoods.

Previously strict guidelines for tenant selection, including checks on the credit and rental histories of prospective residents, were ignored. Then a new federal policy of indexing rent to income and declining conditions in the projects began to drive away employed residents. Middle-class residents and businesses in the surrounding areas also fled, draining the adjacent neighborhoods of employment

opportunities, retail services, and social institutions. Among today's tenants, only 4.3 percent of adults are employed, and nearly 80 percent receive public assistance.

As social conditions within the Taylor Homes deteriorated, so did the physical environment. Cheap construction, building facades resembling factories rather than homes, elevators on the outside of the buildings exposed to Chicago's harsh winters, and few common spaces to promote resident interaction discourage resident pride and efforts to care for their own environment. Fearful of gangs, maintenance crews neglect broken lights, clogged plumbing, and broken elevators. Burnt-out apartments remain unrepaired. Now, social workers and even the police avoid the Taylor Homes. In 1993, more than one resident in ten was the victim of a crime, including 731 violent crimes and 557 robberies and burglaries.

The Robert Taylor Homes continue to fester, unsupervised and isolated. In the words of Nicholas Lemann, "The poor inner-city neighborhoods where most housing projects are located have long since ceased functioning as real communities in the sense of being able to provide their residents with education, employment, and an institutional life." Robert Taylor's model tenements have come to a perverse end: perfect models of what public housing should not be.

social expectations such as delaying childbearing until marriage or investing in education—are passed on in families, schools, churches, and other settings. They are reinforced by social support, honors, and rewards, whereas failure to comply with expectations is sanctioned by punishment or loss of status.

Despite its common occurrence, social capital is not easily created. It is most often a by-product of routine living and cooperative activities within communities. People join social clubs for recreation or block associations to prevent crime, not because they want

to create networks to facilitate future problem solving. Nevertheless, that is exactly what results. And as is the case with other resources, communities that have more social capital generate more. Successful collaboration in one endeavor builds relationships that can be applied to unrelated tasks. In fact, social capital is depleted if it is *not* used.

Indications of the depletion of social capital in distressed inner-city communities are not hard to find. They can be seen, for example, in the relative absence of, and disconnection of residents from, community institu-

tions and services. Poor urban parents disproportionately report that groups supporting youth development, such as scout troops, organized sports, religious activities, and special classes, are not readily available for their children. Only about one low-income parent in ten belongs to a parent-teacher organization, and fewer than one-third of those who belong actively attend meetings. Isolation is similarly evident in informal and interpersonal relations. Men and women living in neighborhoods of concentrated poverty, particularly those who are not employed, are especially at risk of isolation from friendship networks, and poor urban parents are more likely than others to have no one to turn to for advice on child rearing. One-third of low-income parents report that they do not talk to their children about their school experiences, and a significant number of urban teenage boys say they have no best friend and no person they trust. Similarly, residents often have limited exposure to personal or occupational role models. In one study of inner-city Boston, less than 30 percent of inner-city teenagers reported that they "know well" persons in professional occupations, and 50 percent reported knowing of no such persons in their neighborhood.¹²

This dearth of social capital exacerbates every one of the problems listed on pages 12 and 13. For example:

- **Educational Achievement.**¹³ Absence of parental support for education decreases the likelihood of academic achievement; a high neighborhood dropout rate reduces the stigma attached to dropping out of high school; and the absence of educated, gainfully employed adults in the neighborhood obscures the rewards of graduation. In some inner-city high schools, *negative* social capital develops, in which dropping out is the norm and peer pressure and community sanctions work against academic achievement. Consequently, even after controlling for a student's socioeconomic background and other factors, living in a neighborhood with few high-status workers or a low level of civic engagement significantly

increases a student's chance of dropping out of high school.

- **Crime.**¹⁴ Weak social ties and other measures of community disorganization (such as housing density, residential transiency, and the proportion of single-parent families) account for a greater portion of the variation in crime rates among neighborhoods than does poverty alone. This relationship reflects a number of processes at work: Youths are prime perpetrators of crime in many distressed neighborhoods, and a breakdown of social networks forces parents to rely only on themselves to monitor and control their children. Distrust and fear discourage residents from venturing outside their homes, limiting participation in community activities and interpersonal relationships and leaving streets deserted and dangerous. And the large proportion of inner-city youths under the control of the justice system dilutes the stigma of arrest and prison.
- **Unemployment.**¹⁵ Many inner-city residents are disconnected from successful, legally employed individuals. As a result, they fail to see the rewards for delaying childbearing, staying in school, and avoiding criminal involvement. Even for those who circumvent such troubles, lack of access to employed persons makes searching for gainful employment more difficult and discouraging. About two-thirds of job vacancies in the American labor market are filled by direct application at the work site, employee referrals, and similar means in which information about job openings is not widely publicized. Successful job seekers often rely on personal networks to learn of openings and to obtain recommendations from someone the employer trusts. If opportunities within a job seeker's neighborhood are limited, if his relatives, friends, and neighbors are not employed, and if he is reluctant to venture into more prosperous communities, the most effective modes of job seeking are closed to him.

WHY HAS INNER-CITY SOCIAL CAPITAL DECLINED?

In nondistressed communities, social capital is a by-product of daily life. Healthy communities are more than individuals and families living adjacent to each other; they encompass numerous networks among residents. These associations include formal groups (such as church congregations), informal groups (such as block associations), and casual social gatherings (in restaurants, stores, and other local meeting places), as well as relationships among individuals.

Healthy neighborhoods are also not isolated from the society outside their borders. Both individual residents and community institutions employ contacts and resources from across their urban areas. Information, financial resources, and opportunities flow easily into the community; residents routinely travel outside and move from the neighborhood; and outsiders reciprocate in the opposite direction. Consequently, norms within the community remain consistent with those of the broader society, and social relationships seamlessly extend to encompass many sources of potential assistance.

In distressed inner-city neighborhoods, such processes are hampered at every turn. A shortage of community institutions to serve as meeting places or rallying points, fear of crime and violence that discourages interaction and participation in community events, a reluctance by resource-rich institutions and individuals to venture into the neighborhood, a sense of civic powerlessness in which public agencies are seen as unresponsive to local needs, a reluctance to travel outside a familiar environment — all contribute to this outcome.

One key source of the decline of social capital in many urban neighborhoods has been the suburbanization of the American middle class. When better-educated, employed persons in intact families move from a neighborhood, they take social capital with them. The departure of their political, cultural, social,

and financial support weakens community institutions such as churches and schools and prompts a spiral of decline among businesses and properties in a neighborhood.¹⁶

Among white Americans, suburbanization of the middle class has proceeded steadily since the end of World War II. In many minority-dominated communities, this process was delayed until the 1960s, when changing societal mores and antidiscrimination legislation began to expand employment and residential options. As in nonminority communities, the people who took advantage of these opportunities were generally better educated and more affluent than those who remained behind, and the physical decline and segregated nature of their former neighborhoods discouraged middle-class persons from moving in to replace those who departed. Thus, many minority-dominated urban neighborhoods rapidly converted from segregated but stable, mixed-income environments to communities dominated by people poor in both income and social capital.

A second trend undermining inner-city communities has been the decline of employment within central cities, particularly well-paid jobs with limited educational prerequisites such as those historically provided by manufacturing. For the past several decades, the bulk of job growth in the American economy has been in the nation's suburbs and exurban areas, from which many inner-city residents are physically and socially isolated; and in higher skill categories, for which many inner-city residents lack educational qualifications.¹⁷ As employment opportunities have declined, the proportion of inner-city residents who are employed has fallen, undermining their incomes and reducing financial support of neighborhood institutions, weakening norms favoring employment, and eliminating social contacts for job seeking.

Although suburbanization has put many urban neighborhoods at risk, the decline of such communities is not inevitable. Many city neighborhoods have retained middle-class resi-

dents and remained stable and attractive. Others have undergone *gentrification*, in which access to downtown employment and urban amenities attracts affluent, middle-class in-migrants. The difference between these communities and their distressed neighbors is often public and private actions that push endangered neighborhoods over the brink.

In most communities that have gone over the precipice, the divisive issue of race has been at the center of the process.¹⁸ Residents of the distressed neighborhoods listed in the Appendix are approximately 68 percent African-American, 20 percent Hispanic, and 2 percent "others"; only 10 percent are white.¹⁹ Since the 1960s, numerous federal, state, and local laws have prohibited discrimination based on race and ethnicity in employment, housing, public accommodations, and other aspects of daily life. Nonetheless, many African-Americans, Hispanics, and other minorities have continued to experience differences in opportunity based on their race or ethnicity.

The consequences have been devastating for the inner-city communities where many of these persons reside:

- **Employment Discrimination.**²⁰ Over the past 30 years, employment discrimination against minorities has declined but has by no means been eliminated. One study estimates that young black male job seekers today encounter significant discrimination from approximately one employer in four. Other studies document the continued prevalence of negative stereotypes among employers concerning the intelligence, honesty, and work habits of minority job applicants.

Such employment discrimination undermines the financial base of inner-city neighborhoods. Lack of earnings translates into inadequate purchasing power that stunts local businesses, limits the ability of landlords to maintain properties, and thwarts residents' efforts to accumulate assets through home ownership. Limited employ-

ment opportunities also undermine community norms of self-reliance and self-respect and send the message to inner-city residents that education and honest work efforts have few payoffs.

- **Residential Segregation.**²¹ Numerous studies verify the persistence of practices that keep minority residents out of nonminority neighborhoods. According to Squires, "To this day black and Hispanic homeseekers experience discrimination in over half their encounters with real estate sales and rental agents." Simultaneously, many whites continue to avoid neighborhoods where their neighbors would be minorities. Segregation in America's major urban areas peaked in the 1950s, when it was often reinforced by restrictive covenants. Although such explicit practices have been largely eliminated, segregation has not declined substantially. In 1980, the average African-American in the central city of 30 large metropolitan areas lived in a neighborhood that was 75 percent black. In Chicago, for example, nearly nine out of ten blacks would need to move to white areas for the city to be fully integrated.

Racial segregation is one of the most powerful forces concentrating large numbers of disadvantaged people in distressed communities. Equally important, racial divisions between neighborhoods bifurcate social networks, isolating minority persons from the social capital found in non-minority communities.

- **Redlining in Financial Markets.**²² *Redlining* is the practice of denying goods, services, or financing to an area's residents based on real or perceived risk associated with the racial, ethnic, or economic background of its residents. Although it is not always easy to distinguish between real risks, perceived risks, and discriminatory intent, redlining by financial institutions and its damage to minority-dominated areas have been widely documented. Appraisers,

creditors, real estate agents, and others associated with the housing industry continue to undervalue or avoid property in, and limit the availability of financing for, such neighborhoods.

Redlining hampers the preservation and redevelopment of inner-city communities. Denial of mortgages and the extra cost or unavailability of insurance limits opportunities for potential home buyers, the stability they bring to a neighborhood, and opportunities for them to accumulate assets for purposes such as entrepreneurship. Lack of access to home improvement loans and business loans speeds the decline of residential and commercial properties in the neighborhood, hampers business expansion, lowers property values, and discourages investment.

In parallel with these private-sector practices, policies of federal, state, and local governments have also helped to push many threatened inner-city neighborhoods into distress. In some circumstances, these policies have been discriminatory in intent;²³ in other cases, however, this result is an unintended side effect of the pursuit of legitimate public goals:

- **Excluding the Working Poor from Public Housing.** As illustrated by Chicago's Robert Taylor Homes (see page 14), the most severe inner-city distress is often found in the nation's high-rise public housing projects. Central to the unacceptable environment in these projects is the virtual absence of working people and two-parent families. In some projects, fewer than 10 percent of residents are employed, and as many as 95 percent of households are single mothers with children. Adults and youths live there in virtual isolation from employed role models, personal job contacts, and norms of self-sufficiency.²⁴

This overconcentration of persons outside the workforce can be traced in part to well-intentioned policies. To target the nation's limited supply of public housing

to those most in need, the federal Brooke Amendment in 1969 limited public housing rents to 25 percent of resident income (now 30 percent), making units less expensive for those with very low incomes than for those with steady earnings. The resultant domination of public housing projects by distressed families was later reinforced by a requirement that at least 90 percent of units be rented to households with "worst-case needs," such as the homeless.²⁵

- **Single-Purpose, Crisis-Oriented Service Programs.**²⁶ A troubled inner-city family might include an unemployed, drug-addicted single mother and an undernourished child who is behind in school. Even if the child receives special tutoring, she is likely to continue to fail because of other adverse circumstances in her family life. Without a *critical mass* of coordinated, integrated services for the entire family, most individual forms of assistance are unlikely to have more than marginal benefit.

A major cause of service fragmentation is categorical funding of public programs to address specific problems; by some counts, programs limited to narrow purposes currently total more than 200 at the federal level alone. This categorical structure allows public decision makers to express their priorities and ensure that funding is used only for intended purposes, reasonable objectives under the sound principle of accountability. However, the resultant conflicts in eligibility requirements and program rules, exacerbated by turf protection by program-specific bureaucracies, often preclude comprehensive assistance to individuals and families with multiple needs.²⁷

- **Not in My Back Yard (NIMBY).** Every urban area contains some facilities, from halfway houses for ex-offenders to disposal sites for solid wastes, near which residents prefer not to live. With both the quality of daily life and property values at stake, the location of these facilities is often hotly

contested. Affluent neighborhoods often muster zoning restrictions and political power to keep such facilities from their areas and cluster them in distressed neighborhoods.

This pattern of placement may have some logical basis. If the facilities in question harm adjacent properties, economic losses may be minimized by placing them where neighboring properties are already of lower economic value. However, the cumulative consequences for receiving neighborhoods can be disastrous. In communities at the margin of distress, an overload of undesirable facilities may accelerate the process of decline. Furthermore, the politically and economically weakened condition of the receiving neighborhood may tempt authorities to invest less in minimizing the negative effects of the facilities than if they had been placed in more attractive locations.

- **Destruction of the Beat Police System.** Prior to the twentieth century, American law enforcement routinely relied on informal cooperation between police officers and residents. This practice fell into disfavor as concerns over bribery and favoritism rose, and reformers championed a more professional approach to policing. By the 1950s, most urban police departments had centralized control and deliberately reduced police-community linkages. Officers were moved from beats they covered on foot to patrol cars, and radio communication replaced direct interaction with residents for reporting and responding to crime.²⁸

This new style of policing was instituted to promote impartial law enforcement and reduce police corruption. However, it destroys trust between police officers and citizens, reduces resident participation in crime prevention, and constricts the informal flow of information needed to prevent crimes and apprehend and prosecute offenders. Moreover, professional policing does little to reduce the fear of crime that powerfully affects the level of insecurity and distrust in a community.

MAKING COMMUNITY BUILDING A NATIONAL PRIORITY

The processes just described illustrate two general points about neighborhood decline: First, public and private decisions and actions outside the inner city contribute to the creation and perpetuation of distressed neighborhoods. Turning these neighborhoods around will require changes by those outside the neighborhoods as well as by those within. Second, neither public nor private decision makers have paid extensive attention to the consequences of their actions on the social capital and community life in inner-city neighborhoods.

CED believes that the problems of the nation's distressed inner-city areas can be addressed only if these past patterns are broken. A key to reversing the negative processes that predominate within distressed inner-city areas is to rebuild, rather than to destroy, the social capital that differentiates healthy communities from distressed ones. The nation has instituted programs to address specific problems afflicting urban areas and their residents. To achieve sustainable revitalization, it must make parallel efforts to help distressed communities regain and retain the internal resources to heal themselves.

This principle by no means suggests that current public and private initiatives targeted to the inner city and its residents are unnecessary. Unless the nation significantly reforms its failing educational system and perverse public assistance programs, many of the problems of youths and families in inner-city communities will remain unsolved; and unless the nation generates adequate employment opportunities for inner-city residents and adequate fiscal resources for central-city governments, many of the nation's large cities will remain endangered. Social capital is not a substitute for effective public policies or for financial and other resources. However, it is a necessary complement for them to be effective, one whose importance has received too little recognition.

Chapter 3

Local Action Creating and Using Social Capital



What initiatives simultaneously utilize and enhance the problem-solving capacity of inner-city residents and institutions? What does inner-city revitalization look like from a *community-building* point of view?

RESIDENTS MUST BE PARTNERS IN COMMUNITY PROBLEM SOLVING

Such questions can best be answered through illustrations of community-building activities in five problem-solving areas: expanding employment, revitalizing retailing, upgrading housing, ensuring public safety, and promoting youth development. These efforts can be contrasted with more traditional approaches that largely neglect the role of the community.

EXPANDING EMPLOYMENT

At the top of virtually every distressed neighborhood's agenda is more and better jobs for residents. Inadequate access to quality employment perpetuates poverty, discourages investment in education, and contributes to the hopelessness that encourages early pregnancy, drug use, crime, and gang involvement. The community-building approach emphasizes restoring the frequently weak connections between neighborhood residents and the world of work.

Often, traditional efforts in this direction involve development of jobs within distressed communities, for example, through tax incentives and other inducements for firms to locate a plant or office in an inner city. Unfortunately, these efforts often attract few employment opportunities to target neighbor-

hoods, require large public expenditures or tax revenue losses for each job, and fuel zero-sum bidding wars for jobs among localities. Moreover, when jobs are produced, they often go to persons who commute into the neighborhood rather than to community residents. Failure to employ local residents usually reflects a combination of factors, including mismatches between job requirements and residents' skills, employers' distrust of neighborhood residents, and residents' lack of access to job contacts and information.¹

Well-designed initiatives to help inner-city residents find employment address these issues of skills, trust, and information and often connect residents to a broader range of jobs than those within their own communities. The majority of job opportunities for inner-city residents are located outside their neighborhoods. Inner-city job seekers, like the majority of American workers, should expect to commute to work. Moreover, jobs outside the inner city promote a mutual flow of information between distressed neighborhoods and mainstream society and create important social and interpersonal networks.

Whether targeting employment within inner cities or elsewhere, the community-building approach focuses on supplying the missing links between job seekers and opportunities. For example, some inner-city community development corporations (CDCs) have become owners or sponsors of businesses within their communities, such as fast-food outlets, health care providers, and housing rehabilitation contractors, that hire local residents. Other community-based organizations

act as placement agencies, connecting residents to employers within the neighborhood or across the metropolitan area; by prescreening job applicants, community intermediaries can often obtain the cooperation of employers too skeptical of the employability of community residents to interview them on their own initiative. An example of one effective effort by a community-based organization to link residents to jobs is Project QUEST in San Antonio (see below).

REVITALIZING RETAILING

Access to grocery, pharmacy, banking, and other retail and commercial services is taken for granted in most communities. In many inner-city areas, however, the nearest shop-

ping center is miles away, and the retailing that is available offers only a minimal selection of poor-quality products at high prices.

Changes in retail practices make it unrealistic to expect that even in revitalized communities, all eyesore vacant storefronts will be refilled by new retail activity.³ However, community rebuilding typically involves developing certain kinds of retail activity, particularly *convenience shopping*, the daily purchases of food, pharmaceuticals, and sundries in which easy access is paramount. A common unmet need is for supermarkets offering a variety of quality foods, prices lower than those charged by small groceries, and the convenience of one-stop shopping. In turn,

CONNECTING RESIDENTS OF SAN ANTONIO'S BARRIO TO JOBS WITH A FUTURE²

The closing of a Levi Strauss garment factory and layoffs at Kelly Air Force Base left residents of San Antonio's heavily Hispanic South Side fearing that their city had run out of jobs. In reality, many jobs were available, but the unemployed residents of the South Side lacked skills and job placement contacts.

Into this gap stepped Communities Organized for Public Service (COPS) and Metro Alliance, two church-based community groups affiliated with Chicago's Industrial Areas Foundation. Through efforts ranging from kitchen table meetings to discussions with the governor, financial commitments totaling \$6.5 million were obtained from a variety of sources, and Project QUEST began operations in July 1992.

QUEST started by using labor market research to identify occupations, such as licensed vocational nurse, diesel mechanic, and hazardous material technologist, offering growth opportunities and "family wages plus benefits" in the San Antonio area. QUEST also polled employers to identify the skills required by these occupations. At the same time, recruitment and assessment of people with barriers to employment were conducted to match job seekers with training to develop

these skills. The first 130 QUEST participants entered training in January 1993.

QUEST participants receive one to two years of training from the Alamo Community College District or other training providers. Upon completion of the program, participants are employed by one of the project's more than 50 business and community partners.

Through individualized case management, QUEST offers supportive services to participants during their training and early months of employment. These services include career counseling and training in life-coping skills, as well as need-based social services that QUEST secures from state and local public programs.

As of December 1994, 150 program graduates had been placed in jobs; 400 more graduates are anticipated by August 1995. Project QUEST reaches those outside the economic mainstream: 82 percent of its clients are African-American or Hispanic, 35 percent are single parents, 60 percent are women, and 59 percent receive public assistance. To reach even more disadvantaged people in the future, QUEST has convinced the Alamo Community College District to develop a Basic Skills Academy providing math and reading remediation to program applicants who need such help before entering occupational training.

supermarkets generate customer traffic that can anchor adjacent pharmacies, variety stores, restaurants, and other businesses.

Many inner-city communities have experienced decades of virtual retail redlining. In part, this reflects legitimate concerns about limited customer incomes, workforce instability, and neighborhood crime. However, it may also reflect a failure by investors to recognize attractive opportunities. The operational problems of many inner-city areas are often much less daunting than assumed, and many inner-city areas encompass substantial purchasing power.

When false perceptions have been overcome and retail initiatives undertaken in

inner-city locations, the results have often been surprisingly profitable. One example is provided by the Winn-Dixie supermarket in Miami's Liberty City (see below). About 250 supermarkets nationwide now operate successfully in low-income areas of large cities.⁴

Development of these supermarkets is often triggered by a community-based organization that identifies a need, conducts feasibility studies, and spearheads the project. In some cases, the subsequent development involves an equity partnership between a supermarket chain and that organization. For example, in Newark, New Jersey, the New Community Corporation, a community development corporation, owns two-thirds of a Pathmark su-

RETAIL PROFITS AND COMMUNITY PROGRESS IN MIAMI'S LIBERTY CITY

In May 1980, Miami's Liberty City was the last place in America that anyone would have dreamed of opening a profitable business. Three days of riots had left 18 dead, more than \$100 million in property damage, and 240 businesses damaged or destroyed. Most of these businesses did not rebuild, and many of those that had escaped damage fled the neighborhood. When the smoke cleared, Liberty City had lost an estimated 3,000 jobs and its basic commercial services.

Some community leaders never stopped believing that retailing in inner-city Miami could be profitable. Destruction of Liberty City's Edison Plaza and its anchor store, a Pantry Pride supermarket, had left a major neighborhood with no large stores within four miles. Community activist Otis Pitts, Jr., and his Tacolcy Economic Development Corporation (TEDC), with funding from the Local Initiatives Support Corporation (LISC), decided to rebuild Edison Plaza. Armed with mayoral support and market research confirming substantial unmet demand, TEDC raised more than \$2 million to finance a retail mall of 47,000 square feet.

TEDC persuaded the Winn-Dixie supermarket chain to open in the mall, an agreement the company admits making for altruistic rather

than business reasons. But Winn-Dixie no longer sees the decision in that light. The supermarket has been consistently profitable and is the chain's number-two store in southeast Florida in terms of gross sales. Seeing even greater potential, the corporation is now working with TEDC to expand into a "superstore" with twice the square footage.

With this store anchoring the development, seven other retail establishments have opened in the plaza, including an African-American-owned pharmacy. The establishments have created 135 jobs, most filled by community residents. Growth adjacent to the plaza includes a police substation, a community college outreach facility, several start-up retail businesses, and a McDonald's. When mini-riots flared in Miami in 1989, Edison Plaza was spared.

Liberty City is still distressed. Crime is still far too high and jobs far too scarce. Tellingly, some 1,500 residents applied for the fewer than 100 positions available at the Winn-Dixie when it opened. However, success at Edison Plaza has made would-be business owners and investors take a second look at a neighborhood that many had given up on decades earlier.

permarket in the city's Central Ward (see "The New Community Corporation: Powerhouse of Newark's Central Ward," page 29). In other cases, including Liberty City, a community group may develop the space for a market and lease it to a retail chain.

No matter what the formal structure is, community involvement in supermarket development illustrates the benefits of the community-building approach for both the neighborhood and investors. According to O'Connor and Abell, "Sensitivity towards the community is a characteristic that supermarkets which do well in inner cities have, whether the relationship is formalized in a municipal agreement, a joint venture, or held together as are secure friendships between certain families."⁵ Such linkages legitimize a store in a community, increase patronage, and deter crime and vandalism. At the same time, the retail development strengthens the community, generating employment and stimulating economic life. Local retail establishments also become resources for further community building. For instance, a supermarket might collaborate with a local health clinic to promote proper nutrition among mothers and children.

UPGRADING HOUSING

The run-down condition of public and private housing in inner-city areas is sometimes attributable to property managers' outright neglect of maintenance duties. This neglect encourages indifference among residents and discourages all but the most desperate from living there. Sustaining housing quality requires a commitment to maintain buildings properly and consistently.

However, simply administering and repairing properties conscientiously does not ensure quality housing in distressed communities. Even concerted efforts to fix leaky roofs, eliminate graffiti, and control vermin eventually lose ground if social issues remain undressed. Sustaining housing quality requires helping residents with individual and family problems, fostering pride and responsibility

among residents, and reinforcing norms and relationships that support positive behavior. Residents are in the buildings on a daily basis, choosing to keep common areas pleasant or to allow them to deteriorate and deciding whether to report vandalism, crime, and drug activities. The community-building approach recognizes that physical rehabilitation, however well done, will not lead to lasting improvements in low-income housing unless residents form a functioning community.

Regenerating that crucial sense of community often requires an explicit process of resident organizing. In the past, such organizing has often been confrontational, fighting absentee owners over repairs, security, and similar issues. Although confrontation is still necessary at times, resident organizers now more frequently emphasize stimulating sustained resident involvement. In some cases, tenants have assumed cooperative ownership of their buildings. For example, several groups of residents bought and still successfully "co-op" their buildings under New York City's former Community Management Program.⁶ In other cases, tenants, either as volunteers or as paid employees, become building managers, screening residents, establishing and enforcing rules, collecting rents, inspecting units, evicting tenants, and performing maintenance. One widely cited example of tenant management is the Kenilworth-Parkside public housing project in Washington, D.C., where tenants, led by resident Kimi Grey, assumed control in 1982. Subsequently, maintenance and rent collection in the project increased, and crime, teen pregnancy, and welfare dependency decreased. The decline in welfare dependency was largely due to increased employment as tenants replaced nonresidents as employees of social programs and small businesses within the project.⁷

The form of resident involvement is often less important than the involvement itself. A majority of tenants in a particular building may not want to own or manage it. They may prefer a regular forum with management or

formal or informal organizations that represent tenant interests. Whatever its form, however, resident involvement promotes safe, orderly, and decent housing. Residents who help to set and enforce rules are more likely to comply with these rules and to pressure their neighbors to comply.⁸

An additional benefit of resident involvement in housing management is that residents develop problem-solving skills and support networks applicable to other challenges in their lives. In meeting these other challenges, however, additional support is often necessary. Another activity common in community-based housing management is facilitating residents' access to programs and services to improve their lives, including remedial or advanced educational activities, child care, medical care, and recreational services.

When such services are available in a neighborhood, the housing management role may only be informational. For example, Manhattan Valley, a CDC in New York City, publishes a handbook describing services in the area and provides residents with referrals. In other cases, a community-based housing manager may sponsor services that the neighborhood lacks. For example, in the West Garfield Park neighborhood in Chicago, the Bethel New Life CDC operates a health clinic and family counseling, employment training, and prenatal and neonatal care programs.⁹ Another example is provided by the activities of the St. Nicholas Neighborhood Preservation Corporation in Brooklyn (see "Social and Business Goals Reinforce Each Other in Property Management at St. Nick's," page 25).

ENSURING PUBLIC SAFETY

Two crime problems plague America's cities: crime itself and the fear of crime. The two are only partly related, in that fear may reflect an atmosphere of decline and indifference as much as the risk of victimization. However, both devastate community life.

The approach to policing practiced in most of urban America — vehicle patrols for crime

suppression, rapid response to emergency calls, and retrospective investigation — has only limited success at either reducing crime or allaying residents' fears. "Officers flying to answer 911 calls usually arrive, sirens and flashing lights notwithstanding, to find the TV already stolen, the shots already fired, the dope already sold."¹⁰ Most crimes occur out of the view of patrolling police officers, it is rarely possible to prosecute offenders without witness cooperation, and policing methods that minimize interaction with residents do little to address community distrust and fear.

In recent years, growing awareness of these facts has led law enforcement agencies in a number of cities to move toward a *community-policing* approach. The first step in this process is to address fear and distrust by fostering personal contact with residents and making police resources seem accessible. In concrete terms, these goals are promoted by replacing cruising patrol cars with bicycle and foot patrols and making individual officers responsible for personal beats. These beat officers are encouraged to be responsive to a range of community needs. Residents commonly use police as more than crime fighters, for example, for settling minor disputes or providing directions. Under "professional" policing, these requests are viewed as a distraction from "real" police work; under community policing, they are viewed as opportunities to foster community relations and to obtain clues to more serious problems. In addition, officers may distribute information on services such as domestic violence shelters and drug rehabilitation programs. Community outreach also may be emphasized through activities such as officer visits to schools and assistance in organizing neighborhood crime watches.

Community policing works if it engages the collaboration of community residents. Although only a small percentage of inner-city residents participate in criminal activity, many more are passive bystanders. Under a com-

SOCIAL AND BUSINESS GOALS REINFORCE EACH OTHER IN PROPERTY MANAGEMENT AT ST. NICK'S¹¹

In distressed inner-city neighborhoods, successful housing management often requires integrating social and business functions. St. Nick's, a community development corporation founded by the St. Nicholas Roman Catholic Church in the ethnically and economically diverse Greenpoint-Williamsburg section of Brooklyn, is representative of a growing number of community-based organizations adept at this integration.

St. Nick's currently manages 1,150 housing units, some of them developed and owned by the community development corporation, others independent co-ops that contract for this service.

St. Nick's takes seriously the business aspects of housing management. The organization has a reputation for vigilant tenant selection and for not being afraid to evict residents who repeatedly cause problems or fail to pay their rent. But by using resident-management linkages to support business goals as well as social ends, St. Nick's reduces the need to resort to such strict enforcement approaches. The organization deals with its residents in a personalized manner, using the same staff to perform business services such as rent collection and social services such as staying in

touch with residents' problems. The resultant contact provides important information. For example, the organization might allow temporary rent arrears or welcome and assist families with problems if the tenants involved are serious about resolving those problems.

St. Nick's also promotes activities that enhance residents' individual and collective problem-solving capacities. The organization helps to establish tenant associations in the buildings it manages. It employs an anticrime specialist to organize building meetings about safety issues, publicize neighborhood crime statistics, and deliver to the police information that residents are afraid to report. St. Nick's also helps residents to obtain needed services, for example, through informal counseling by the building manager or referrals to neighborhood social service agencies. When necessary, St. Nick's develops services to meet specialized needs within its buildings. When it developed a 21-unit building to house formerly homeless families, the corporation placed a full-time social worker on site; and in a development for senior citizens, St. Nick's created a home health care program that not only serves elderly residents but also employs more than 650 workers.

munity-policing approach, residents serve as the eyes and ears of the police, and they and their community-based institutions become active partners in enhancing public safety. Residents can be particularly helpful in dealing with problems that erode the quality of community life, such as those associated with vagrants and prostitutes, drug activity, trash, and graffiti.

In some communities, residents take an even more active role in crime eradication, as they do in Marshall Heights, a distressed neighborhood in Washington, D.C. In cooperation with the District of Columbia police, the Marshall Heights Community Develop-

ment Corporation has organized and trained residents, identifiable by their orange hats, to conduct nightly neighborhood patrols. Among other activities, these patrolers record the license plates of drug purchasers, effectively closing down open-air drug markets in their area.¹²

The Codman Square community in Boston illustrates another dimension of the community policing approach (see "A Return to Community Policing in Codman Square," page 26). Although the changes involved in that experience, such as redrawing precinct boundaries, sound simple, they reflect a major overhaul of policing philosophy and methodology.¹³

PROMOTING YOUTH DEVELOPMENT

Even in affluent suburban communities, young people face serious obstacles on the path to productive adulthood: drugs, violence, and broken families. Most make it through their teenage years intact. However, of those living in distressed neighborhoods with few social supports, jobs, or recreational opportunities, many do not. In despair, these youths often gravitate to the few opportunities for support, affirmation, and recreation that are available: gangs, premature childbearing, and illegal drugs.

Traditional youth service programs are often short term and narrowly focused, providing services designed by professionals to address the "deficiencies" of inner-city youths. However, a number of community-based organizations are seeking to break the cycle of distress among inner-city youths by working under a different set of assumptions.¹⁴ They describe themselves not as social service pro-

viders but simply as organizations *for youth* and view their members as resources to be developed, not problems to be fixed. A fundamental premise of their work is that inner-city youths, like young people elsewhere, have the capacity to solve their own problems but need opportunities and support.

An example of such an organization is the Logan Square YMCA in Chicago. The organization's experimental gang-intervention program uses recreational activities to attract gang members and then expands its contact with them to encompass education and employment. The program trains former gang members as outreach workers and mediators to avert violence among rival gangs. It brings rivals together in the neutral territories of classrooms, jobs, and gyms to build personal relationships that make them less willing to attack each other on the street.¹⁵

Given the range of problems that youths

A RETURN TO COMMUNITY POLICING IN CODMAN SQUARE

Codman Square, a commercial and residential area in the Dorchester section of Boston, has had its ups and downs. Once a thriving neighborhood, the area deteriorated rapidly throughout the 1970s as poverty increased, crime escalated, and businesses closed. Things are again looking up in the area, however, thanks to a variety of community efforts. In the past several years, more than 40 new businesses have opened in Codman Square.

Critical to this rejuvenation has been a new approach to police services in the neighborhood. Perhaps *new* is the wrong word, for in the heyday of the neighborhood, years before, beat officers regularly walked the commercial strip along Washington Street. Then, like many urban police departments, the Boston Police Department pulled these officers off the street, placed them in squad cars, and assigned them to respond to 911 calls.

To increase the efficiency of the new patrol operation, the department designated Washington Street as the dividing line between two

precincts. With this arrangement, they reasoned, *twice* the number of squad cars would patrol that street.

They should have left well enough alone. Just when other problems were threatening the stability of the neighborhood, the withdrawal of regular contact between police and residents further undermined trust and order. Moreover, designation of Washington Street as a precinct boundary left neither adjacent precinct responsible for the commercial strip. This lack of accountability, in tandem with a lack of contact between police and businesses on the street, allowed crime and drug activity to flourish, eventually driving out nearly all local merchants.

The Boston Police Department is now once again contributing to making Codman Square a healthy commercial area. Beat cops once again walk Washington Street, and precinct lines have been redrawn to make one precinct accountable for the entire area. Police also meet regularly with community leaders and business owners.

face growing up in the inner city, efforts to overcome negative influences must be substantial in scale and comprehensive in style.¹⁶ A frequent role of community organizations is creative integration of the fragmentary supports available from multiple government programs and other sources to create this comprehensiveness. Another key role is to make programs readily accessible. For example, the Boys and Girls Clubs across the country are mobilizing local and national resources to provide comprehensive programs for youths in public housing (see "Boys and Girls Clubs in Public Housing Projects," page 28).

INITIATIVES MUST BE SUSTAINED THROUGH COMMUNITY INSTITUTIONS

A theme common to the examples presented in the previous section is that they involve *sustained and organized* efforts that occur primarily through *ongoing institutions*. Although temporary problem-solving efforts and informal associations are part of the fabric of life in healthy communities, they are not likely to thrive over extended periods or promote evolution of one initiative into additional efforts. Within neighborhoods in turmoil, *community-based institutions* serve as major repositories of the community's social capital.

The following are examples of promising inner-city institutions around which community-building efforts rally.

COMMUNITY DEVELOPMENT CORPORATIONS

One of the fastest-growing forms of community-based institutions in inner-city America is the *community development corporation*. CDCs are nonprofit organizations usually governed by boards that include local residents, business representatives, and other community leaders. Their typical goal is long-term, comprehensive community development in a limited geographic area.¹⁷

The roots of CDCs go back at least to the late nineteenth century, when settlement

houses helped immigrants assimilate to life in America. The concept proliferated during the 1960s with federal Great Society programs to empower low-income people economically and socially; in those days, CDCs often shunned or fought city hall in their efforts. Their present shape, however, only faintly echoes these adversarial predecessors. In the 1990s, CDCs emphasize the power of collaboration with governments, business, and others.

The number of CDCs has mushroomed over the past 25 years, from about 100 nationwide in 1970 to an estimated 2,000 to 2,500 today. CDCs now operate in every state in the nation and in both rural and urban areas, although many are concentrated in older industrial cities in the Northeast and Midwest.¹⁸

CDCs vary considerably in size and strength. A few are massive, for example, the New Community Corporation in Newark, New Jersey, with \$200 million in assets and more than 1,200 employees (see "The New Community Corporation: Powerhouse of Newark's Central Ward," page 29). More typical, however, are organizations with a staff of about seven and an annual budget of \$700,000.¹⁹

Their most common core activity, engaged in by more than 80 percent of CDCs, is housing development, with the typical CDC constructing or rehabilitating about 21 housing units annually. By 1990, CDCs had developed more than 320,000 units of affordable housing, including nearly 23,000 in that year alone.²⁰ A CDC's role in a housing development project can range from passive cosponsor or limited partner to builder-owner.

Reflecting the need for comprehensive services in their multiproblem neighborhoods, CDCs in the 1990s are increasingly involved in a variety of activities beyond housing development. A survey of CDCs in 1991 found that:²¹

- To supplement their activities in housing development, 75 percent provide *housing services* such as homeowner and tenant counseling, home repair, and weatherization.

- To encourage residents to take responsibility for their neighborhoods and to provide a voice to outside institutions, 70 percent engage in *community advocacy and organizing*.
- To address the social needs in their communities, 60 percent provide *social services* such as job training and placement, child

care, teen pregnancy counseling, antidrug efforts, and youth programs.

- To bring capital and jobs into their neighborhoods, 25 percent are *lenders, equity investors, or business operators*, most often in support of neighborhood small businesses or microenterprises.
- To support businesses and jobs, 25 percent

BOYS AND GIRLS CLUBS IN PUBLIC HOUSING PROJECTS

The Boys and Girls Clubs of America (B&GCA) have long been committed to serving disadvantaged youths. To aid some of the most disadvantaged, the clubs have reached directly into their home territories in public housing. Young people in public housing often live under the most adverse conditions, having the most limited range of adult role models, coping with the most negative peer pressure, and perceiving the fewest positive alternatives. What began in 1986 with a challenge from then Secretary of Housing and Urban Development Samuel Pierce to establish 100 clubs in public housing has blossomed into a major national initiative. Today, 263 Boys and Girls Clubs operate in public housing developments nationwide and serve nearly 100,000 young people. An additional 25 clubs are expected to be added each year through the end of the decade.

The process of developing a club in a housing project typically begins when someone, such as the local housing authority, a local club chapter, or a community resident, articulates the need. The next step is consultation among the housing authority, national and local club representatives, community groups, police, tenant representatives, and others. In many cases, this process is the first time these diverse groups have interacted.

Through a trained field staff, B&GCA provides technical assistance to member organizations to establish new club chapters and club sites. To finance new clubs, B&GCA helps generate seed money, but local chapters also raise funds from government, foundations, and private donors. Some clubs receive federal grants targeted for youth sports or antidrug

initiatives. Clubs pool these multiple sources of support to provide comprehensive programs.

The underlying goal is to help young people develop their sense of belonging, competence, and usefulness and to enhance their problem-solving abilities. Club activities to promote these ends include education, recreation, and drug and pregnancy prevention. For example, in partnership with the federal Office of Juvenile Justice and Delinquency Prevention, clubs in public housing in more than two dozen cities have implemented SMART Moves, a B&GCA initiative to prevent drug use and premature sexual activity. Under SMART Moves, teams consisting of club staff, older club members, community residents, and parents lead groups of young persons in developing skills to resist negative peer pressure, raise self-esteem, and encourage communication with parents, friends, and neighbors. At the same time, the program builds relationships among adults in the community to create an environment of support for positive behavior among youths.

Research indicates that clubs have a positive effect on the public housing developments and the young people they reach. The Columbia University School of Social Work found that public housing complexes with clubs had 25 percent less presence of crack cocaine, 22 percent less overall drug activity, and 13 percent fewer juvenile crimes than similar complexes without clubs. Some building authorities also report the clubs have improved the quality of life in the developments and increased rent collection as residents value their place in the project.

develop *commercial real estate*, constructing, rehabilitating, and managing office and retail buildings and industrial sites.

This diversity reflects in part the fact that with the active involvement of residents, CDCs adapt to meet the needs of their individual neighborhoods. However, underlying all these activities is a fundamental commitment to developing social capital in their communities.

This contribution is more difficult to measure than the number of housing units produced or residents served, but it is fundamental to the long-term impact of any CDC activity. CDCs serve as permanent institutions in otherwise-unstable neighborhoods, entry points for the poor and isolated into social networks, and vehicles by which residents can address both neighborhood and individual needs.

THE NEW COMMUNITY CORPORATION: POWERHOUSE OF NEWARK'S CENTRAL WARD

The New Community Corporation (NCC), in Newark, New Jersey, is often identified as the most successful CDC in America today. Led since its inception by Monsignor William Linder, New Community was founded in 1968 by residents in the primarily black Central Ward. Built on a foundation of moral values and a belief that all persons are entitled to and capable of determining their own destiny, NCC has long been a force for community change.

Physical evidence of NCC's accomplishments can be seen throughout the Central Ward: more than 2,500 new or refurbished apartments housing more than 6,500 residents; 7 Babyland Nurseries day-care centers serving 700 children; a supermarket and shopping center attracting 50,000 shoppers weekly; a nursing home, medical offices, a restaurant, and a wellness center. NCC has been a ubiquitous rallying point and community-based partner for virtually all such projects in the area.

NCC contributes significantly to Newark's economic base. With assets of \$200 million, NCC employs 1,350 persons in housing and human service programs, pays \$2.3 million in taxes annually to the city of Newark, and generates more than \$4 million in federal and state payroll taxes. The organization generates most of its revenues from profitable ventures and contracts to operate state and federal service programs and receives only limited foundation support. NCC also gets support for some of its programs from corporations such

as Johnson & Johnson and the Prudential Insurance Company.

One of NCC's most noteworthy accomplishments is a Pathmark supermarket, the first major chain store built in the Central Ward since the 1967 riots. Before the opening of the Pathmark in 1990, residents either traveled long distances to shop or paid convenience store prices; in a community where one-third of residents receive public assistance and average annual household income is only \$13,629, local residents were paying 38 percent more for food than residents in areas with supermarkets. NCC fought in court and city hall to acquire land, assembled \$16 million in financing through state and federal grants and loans from Prudential and First Fidelity, and worked in partnership with Pathmark to prove that investing in a supermarket in an urban neighborhood could be lucrative.

NCC's contribution in Newark goes well beyond its physical and economic accomplishments. To help residents help themselves, NCC provides services such as child care, job training and placement, counseling for the homeless, and transportation for the elderly. The goal of these services is to develop within residents the problem-solving skills they need to become productive members of the community and assure that they have the community support they need to reach that goal. Described by Monsignor Linder as a "network of care," NCC strives to rebuild trust and mutual support among Newark residents.

PUBLIC SCHOOLS

Among the most visible, enduring, and potentially powerful community institutions in almost any urban neighborhood are its public schools. Schools are a central thread in the fabric of everyday life, an institution with which nearly everyone comes into contact, and a source of continuity and purpose for area residents and their children. At the same time, most school buildings are underutilized outside of school hours and could offer valuable recreational, educational, and meeting space. Schools also provide ready access to students and their parents as program participants. Schools depend on social, medical, income support, and other services in the community to assist families in delivering students to them ready to learn. In turn, in many communities, schools are attractive locations for the delivery of services and other community-building endeavors.

Utilization of schools as the location of, and access point for, services is not the same as making the schools *responsible* for these activities. The primary mission of schools and the most important contribution schools can make to rebuilding inner-city areas is to *put learning first*: to ensure that children develop the academic knowledge and personal skills that will enable them to function as effective adults in the workforce and the community.²² This imperative dictates that school budgets should not be regarded as a funding source for health care, recreational activities, family support services, community policing, or other services needed by inner-city communities and their residents. However, as long as they do not interfere with the educational process, many or all of these activities can be provided *at school sites with school cooperation*.

A partnership between a New York City public middle school and a private social service agency, the Children's Aid Society, exemplifies the cooperative role schools can play in community building (see "A School-Based Settlement House at New York's Salome Urena Middle Academy," page 31).

NEIGHBORHOOD CHURCHES

Churches and other religious establishments are often stable institutions in the frequently transient world of the inner city. Years of impartiality and community involvement have earned churches the trust of residents who are otherwise disillusioned with the police, social service agencies, and private businesses. Regular contacts between church leaders and residents present opportunities for disseminating information and for informal organizing. Congregations provide a traditional context for leadership development, and church members often provide role models of intact families and working parents rare in some neighborhoods. Churches and other religious institutions have a value base — for example, the emphasis on service and justice within the Judeo-Christian and other religious traditions — compatible with community building. Finally, like other inner-city organizations, religious institutions are concerned about the stability and security of the area in which they operate and thus have a self-interest in community improvement.²³

Churches often also have access to economic assets. Many Americans exercise their volunteerism and charity through their religious institutions; nationwide, African-Americans alone contribute an estimated \$2 billion to churches annually.²⁴ Church buildings often provide office and meeting space for community events and service activities. Many religious organizations, often Protestant churches in African-American communities and Roman Catholic churches in Hispanic neighborhoods, have recognized their special role and are leading efforts to rebuild their communities.

Part of this activism has involved building relationships and establishing a sense of community responsibility among congregants and residents. For example, the Nehemiah Project in Brooklyn, New York, widely cited for providing housing for low-income families, was the product of a long process of relationship building and training. Ministers and lay lead-

ers from the East Brooklyn Churches Association spent time talking to congregants and holding block and congregation meetings to build a spirit of accountability that was prerequisite to undertaking housing redevelopment.

Other congregations actively provide social services to residents in their community. For example, for nearly two decades, the Bethel African Methodist Episcopal Church in Baltimore has fed the hungry, assisted the unemployed, taught parenting skills, and supported neighborhood anticrime groups (see "Rebuilding a Neighborhood and a Congregation: Baltimore's Bethel African Methodist Episcopal Church," page 32).

COMMUNITY-BASED FINANCIAL INSTITUTIONS

Adequate access to capital for housing, commercial real estate, and small-business development is vital to any community. Like other neighborhoods, distressed inner-city areas depend on commercial banks, thrift institutions, mortgage companies, venture capitalists, and similar sources for these financial resources. However, many of these traditional institutions have failed to seize opportunities in inner-city areas and to adapt financial products to this market.

To address this gap, a number of distressed urban communities across the nation have developed special financial institutions, in-

A SCHOOL-BASED SETTLEMENT HOUSE AT NEW YORK'S SALOME URENA MIDDLE ACADEMY²⁵

In a newly constructed middle school in the primarily Dominican Washington Heights section of New York City, a unique partnership between the New York City school system and the nonprofit Children's Aid Society (CAS) has led to a school-based settlement house serving children, their parents, and the broader community.

When the school was designed, space was set aside for community use, the building was zoned for multiple uses (e.g., to make it easy to open parts of the building during evening hours), and lighting and air-conditioning were installed to support evening and summer programs. The building is bright and colorful, and decorative artwork reflects the Latino culture of the neighborhood.

School begins at 7:00 A.M. with a "zero period" featuring music, recreation, and breakfast for about 100 early arriving students. The building remains open until 10:00 P.M. on school days and during the summer, with supervised education, recreation, nutrition, and other programs during nonschool hours. An on-site health clinic provides dental and medical services.

The school site is welcoming to students' families and members of the wider commu-

nity. A family resource center provides help with immigration, public assistance, employment, and housing issues. Adult education is available, including English as a second language and entrepreneurial skills. In an innovative activity to build bridges between residents and the police, students and parents from the school teach Spanish to police officers from the local precinct. CAS social workers, paraprofessionals, parents, and other volunteers staff the family resource center.

Yet, the school has not lost sight of its educational mission. Although the community program is administered jointly by the school system and CAS, the principal retains ultimate authority. Extra services are funded primarily by a grant of \$800,000 a year from CAS, with the school system paying only for maintenance, school guards, and insurance.

The new school has become a center of community life in the Washington Heights neighborhood. Students remain in school because they want to, it is fun, and it has become the thing to do. According to Warren Moses, director of CAS, "The community school is for families, for children, for all, a center of lifelong learning for the community."

cluding community credit unions, loan funds targeted to minority borrowers, and development banks. These institutions typically provide not only capital but also business development advice and services to help the money to be used well.

The most complex embodiment of this concept is the *community development bank*, of which the South Shore Bank in Chicago is the best-known example (see "Banking on Inner-City Enterprise: Chicago's South Shore Bank," page 33). The concept of development banking is that community revitalization requires not only conventional credit but also nonconventional lending and complementary community-building activities. Unlike CDCs,

development banks are incorporated as for-profit entities (although often with not-for-profit subsidiaries) and aim to maintain sufficient profitability to be self-sustaining and to instill business discipline in all decisions. However, they sometimes accept lower financial returns than is normal for conventional lending institutions. Their primary goal is to achieve positive interactions among the development projects in which they are involved, eventually creating an environment in their neighborhoods attractive to private investors and conventional lenders.

As financial institutions, development banks and community loan funds try to fill capital gaps in a community, especially by

REBUILDING A NEIGHBORHOOD AND A CONGREGATION: BALTIMORE'S BETHEL AFRICAN METHODIST EPISCOPAL CHURCH

For I was hungry and you gave me something to eat, I was thirsty and you gave me something to drink. . . . Whatever you did for one of the least of these brothers of mine, you did for me. (Matthew 25:35-40)

Pastor John Bryant took this mission seriously when he came to Baltimore's Bethel African Methodist Episcopal Church (Bethel A.M.E) in 1975. Like many other urban African-American churches at the time, Bethel A.M.E. was dying along with its Marble Hill neighborhood as crime and other social problems drove away middle-class black residents. Its congregation had dwindled to 650 worshippers, many of whom drove in from the suburbs. Pastor Bryant was determined to rebuild the church and the neighborhood together.

He began this process by rebuilding connections between his church and the community. Bryant challenged his parishioners to reach out to troubled neighborhood residents, asking first for food and clothing donations. His congregation responded. He then challenged them to get involved more directly. Church volunteers converted a small church-owned building into a center for residents to receive tutoring, job counseling, and crisis assistance. By the

early 1980s, the outreach center was operating a multifaceted service program.

The scope of the church's program continued to grow throughout the 1980s. Today, the Bethel Outreach Center operates in a larger building, renovated with state assistance and a below-market loan from the Chase Bank of Maryland. Its volunteer staff is supplemented by five part-time paid employees. On a typical day, the center distributes more than 100 parcels of food, provides numerous referrals to social service programs, dispenses emergency assistance to people facing eviction, hosts parenting and high school equivalency classes, and provides space for neighborhood associations to organize crime-watch programs. The church has also established a credit union and a school for students through grade five.

Although the outreach center is now legally separate from the church, it still draws its energy from it, and center participants often look to the church for healing and connection to the community. At the same time, as if according to Bryant's plan, the church has drawn energy from its outreach efforts. The congregation grew to more than 6,000 during Bryant's pastorship and has continued to grow to more than 9,000.

making loans smaller than conventional sources wish to handle and by using their familiarity with the community to provide credit to borrowers that conventional lenders consider too risky. They often successfully lend to borrowers with little credit history or collateral but good standing in the community, relying on a combination of lender monitoring, government guarantees, and knowledge of the neighborhood.

LARGE PUBLIC AND NONPROFIT INSTITUTIONS

Many distressed inner-city neighborhoods are the home of large public or nonprofit institutions such as hospitals and universities. Often, these institutions and their surrounding communities remain at arms' length or are adversaries. In better circumstances, however, the institutions serve as major anchors for the community, providing jobs, purchas-

BANKING ON INNER-CITY ENTERPRISE: CHICAGO'S SOUTH SHORE BANK²⁶

During the 1960s, Chicago's South Shore neighborhood was in serious decline. This once middle- and upper-class neighborhood was devastated when whites fled an inflow of black residents. Stores closed, property values plummeted, and once elegant apartment buildings deteriorated. Every commercial financial institution left the neighborhood but one, South Shore Bank, and it too would have left if bank regulators had approved a move downtown. Loss of this final financial institution, in combination with redlining by other area banks, would have effectively shut off the neighborhood's access to credit.

In 1973, three local activists, using \$2.4 million in debt and \$800,000 in equity, formed the Shorebank Corporation and purchased South Shore Bank with a pledge to use it to revitalize their community.

The bank specializes in loans shunned by many other banks, such as those to renovate housing in its neighborhood and to fund minority entrepreneurs. It does not have a "neighborhood development" department; lending in the bank's service area is the priority of every loan officer. The bank does outreach where it perceives a credit need but finds low demand. It lends in a partially non-conventional fashion, relying as much on a borrower's character and the bank's knowledge of the community as on collateral or borrowing history. It also uses Small Business Administration and Federal Housing Administration guarantees. To aid community devel-

opment in ways not allowed commercial banks, the group also operates nonbank subsidiaries, including the for-profit City Lands Corporation to develop real estate, the nonprofit Neighborhood Institute to deliver social services and job training, and the Neighborhood Fund to provide equity and loans to businesses.

Between 1974 and 1993, the South Shore Bank provided more than \$260 million in lending to its target communities, including \$37.5 million in 1993. Its success in housing — financing over 200 local building rehabilitation and management entrepreneurs who have renovated more than 9,000 units, or one-third of the community's multifamily housing stock — is complemented by a growing portfolio of other small-business loans.

Although one goal of the bank is to provide a convenient repository for the savings of neighborhood residents, it soon realized that resources within the community were not sufficient to meet neighborhood credit needs. About 60 percent of the bank's assets consist of Development Deposits provided by corporations, foundations, and individuals across the country willing to accept lower-than-market rates of return to support social objectives.

Today, South Shore Bank has assets of about \$275 million. In four of the last six years, its loan loss rate was less than that of other banks of comparable size, and its 1 percent return on assets in 1993 is about average for banks of its size.

ing power, community identity, health and social services, leadership training, and expertise in neighborhoods where alternative resources are limited. The motivation for such involvement is only partially philanthropic. The future of these institutions is integrally related to that of their neighborhoods. Their clients may choose other hospitals or schools if they do not believe they can go there safely, and local residents themselves will be difficult neighbors if their problems remain unresolved.

Several joint efforts between large urban institutions and their surrounding communities exemplify this form of partnership. For example, the Peninsula Hospital Center and St. John's Episcopal Hospital in Queens, New York, and Misericordia Hospital in southwest Philadelphia are working with local community development organizations to identify health concerns in their neighborhoods and to address both the causes and the symptoms of these problems. In New Orleans, Xavier University of Louisiana has joined with the Xavier Triangle Development Corporation (XTDC) and the local police to develop a neighborhood watch. In addition, XTDC, with help from faculty and students from Xavier and Tulane Universities, completed a needs assessment for its neighborhood and a plan to increase home ownership and promote local businesses.²⁷

THE DEFINING ELEMENTS OF COMMUNITY BUILDING

As these examples demonstrate, community-building activities are as diverse as the neighborhoods in which they occur and the problems they address. The agenda can be narrow or broad, the effort short term or long term, and the institutional arrangements formal or informal. Through all this diversity, however, runs the common thread of *the centrality of the community's own problem-solving abilities*. Reflecting this centrality, the essential

defining characteristic of the community-building approach is that *inner-city residents and institutions can and must be primary actors in efforts to solve the problems of their neighborhoods*.

That common thread is always "two-ply": Community involvement both *utilizes* and *builds* social capital. The power of involvement of community residents and local institutions extends beyond the promotion of any specific effort. Local action builds social capital — community and individual capacity — that can then be applied in future problem solving. A successful community-building activity is, by definition, not an isolated event but an ongoing process. Only in that way are efforts sustained, and only in that way do they advance a broad agenda addressing the multiple problems simultaneously burdening distressed communities.

CED urges that both public and private actors consistently adopt a community-based style of problem solving in addressing the problems of distressed neighborhoods. Residents and local institutions should be central participants in identifying neighborhood problems and constructing solutions. Such efforts apply to the realm of social problem solving the approach of many business efforts to reengineer their operations and empower their workers.

Another defining characteristic of community building is that efforts are *comprehensive* and *interrelated*, acknowledging and confronting the multiple problems of distressed neighborhoods. The interrelated nature of problems, discussed in Chapter 2, prevents efforts focusing on single problems from succeeding, as they are quickly overwhelmed by other forces in the community. Similarly, the problems of individuals and families living in the inner city do not arise in isolation from neighborhood conditions. Therefore, addressing their problems requires strengthening the norms, supports, and problem-solving resources of their community.

CREATING THE SOCIAL AND PHYSICAL PREREQUISITES

Social capital is most easily generated when communities have some social resources on which to build. This principle implies that local problem solving will be difficult to stimulate and sustain in neighborhoods so distressed that few social resources remain.

Carried to its extreme, this consideration would imply that severely distressed inner-city areas should be abandoned rather than rehabilitated. Such a position is generally not appropriate because, despite their distress, most inner-city areas still possess some social capital. Contrary to the presumptions often held by outsiders, there are remarkable quantities of underutilized resources even in terribly distressed neighborhoods. Among these resources are the majority of inner-city residents who, despite their low incomes, have the same aspirations as middle-class persons: a safe place to live, a steady income, opportunities for their children. When given the chance to pursue these aspirations, most inner-city residents work hard to achieve them. Against tremendous odds, many are already trying to do just that. Even in many high-poverty areas, the majority of residents are not poor, at least as defined by federal poverty standards,²⁸ and many distressed neighborhoods have indigenous institutions that are potential resources for community building.

In some instances, however, neighborhoods may have too few resources on which to build. For example, some cities have suffered such large population losses over many years that insufficient population remains to support rehabilitation of all their distressed neighborhoods. Detroit, for example, lost 44 percent of its population between 1950 and 1990.²⁹ In such circumstances, the appropriate approach may be selectively to clear and recycle some areas of the city to other uses, such as in-city industrial or office parks, while targeting community-building resources to a limited

number of neighborhoods with the greatest potential.³⁰

Another variation on the same theme arises in neighborhoods where social conditions are so severe that sustained change through local problem solving is all but impossible without more radical alterations in the neighborhood environment. The level of distress among inner-city communities is a continuum. Some neighborhoods, although suffering many symptoms of distress, nevertheless retain many hardworking residents and stable community institutions from which community building can emerge. Many of these are *threatened neighborhoods*, areas adjacent to distressed neighborhoods that may fall into further distress if current processes are left unchecked (see Chapter 2). Because they mix some strengths with some aspects of decay, threatened neighborhoods are often excellent candidates for community building.

At the other extreme, certain neighborhoods, such as the Robert Taylor public housing projects in Chicago (see page 14), offer far more limited resources to build upon. In such cases, it would be naive to assume that community-building efforts, however well crafted, can make extensive progress unless accompanied by major changes in the physical and social circumstances in which they operate. For example, one precursor of distress in public housing is the physical density of projects; another is the absence of two-parent, employed families. Community building is not likely to thrive where large numbers of distressed families are concentrated and isolated within a badly designed physical environment.

Just a few miles from the Robert Taylor Homes is another Chicago Housing Authority property, Lake Parc Place, that illustrates how environmental transformation can set the stage for effective community building. There, under a special demonstration project, a dramatic process of physical de-densification and repopulation with economically and socially

mixed residents is under way (see below).

To ensure that community building is effective, it should reflect a realistic understanding of neighborhood circumstances, conditions, and resources. It is often useful to formalize the development of that understanding with an explicit inventory of the assets and challenges within a community. Such a review should, of course, have extensive par-

ticipation of local residents. To reflect a citywide strategy, it might best be conducted at the city level by a broad representation of resident, business, and government leaders.

In the majority of distressed neighborhoods, such an inventory will confirm the opportunities for community building without major environmental changes. But when the review suggests that more basic social or physical

CHICAGO'S LAKE PARC PLACE: PUBLIC HOUSING WHERE PEOPLE WANT TO LIVE

A public housing project where people are clamoring to get *in*? That is the case in the Chicago Housing Authority's (CHA's) handsome Lake Parc Place, a creation of visionary CHA Executive Director Vincent Lane working with special Congressional authorization. Lake Parc welcomed its first residents in 1991, marking the end of a five-year metamorphosis of Orlander Homes, a battered, gang-controlled, notorious public housing project condemned to demolition. It is now home to 282 families, including many working, two-parent families, and boasts a waiting list of more than 2,000.

The first step in achieving this transformation was a major physical renovation to densify the site and make it appealing. Several high-rise buildings were cleared and replaced with town houses, and the two remaining high-rises were renovated with brightly painted walls, oak kitchen cabinets, and neatly landscaped grounds. These amenities and Lake Parc's spectacular views of Lake Michigan made the development highly attractive, even by middle-class standards.

But Lane knew that physical amenities were not enough. If something radical was not done to make the community in Lake Parc different from that in other public housing projects, the attractive buildings would soon revert to an unacceptable state. Thus, the second key to the new development is innovative management, administered jointly by a private realty firm and a tenant committee, that emphasizes diligent tenant selection. This process is designed

to maintain an economic mix: Half of the units are filled by very poor families with average yearly earnings of \$5,000 to \$6,000 and the other half by families with incomes 50 to 80 percent of the area median, currently about \$25,000 on average. Employed, married tenants serve as role models for unemployed, single-parent neighbors and their children. Management also screens residents for credit, employment, and criminal problems; seeks recommendations from previous landlords; and conducts in-home visits to evaluate applicants' behavior and housekeeping. A six-member council that includes three residents has final say concerning new tenants.

The final component of the Lake Parc approach is a strict regulatory and security system. Tenants must adhere to stringent rules. Possession of illegal weapons or drugs results in eviction. These rules are bolstered by security measures that include around-the-clock guards who check residents' identification and monitor all visitors.

These efforts are paying off. Gangs have not made their way into Lake Parc, and there have been no homicides, violent crimes, or armed robberies in the buildings. Lane appears to be correct about how the majority of public housing residents will act in this new environment. Few residents have been evicted, ten formerly unemployed tenants now work in the project as child care providers, and several others work as security guards.

changes in the neighborhood are necessary, these changes should be considered part of the process.

Reducing the concentration of severely distressed families is one example of the sort of prerequisite to effective community building that such a review might identify. Programs such as HUD's Section 8 housing vouchers, scattered-site public housing, and other efforts to move inner-city residents into less distressed neighborhoods can therefore be an important component of inner-city community building (see below).³¹ From the point of view of residents moved from distressed neighborhoods into more stable areas, the programs increase their housing and neighbor-

hood options, and the resultant moves are often associated with improvements in educational and economic outcomes.³² These are worthy goals in their own right. But these same efforts also benefit the communities from which residents are moved. They ease the concentration of distress within inner-city areas, creating more favorable conditions for community building. So long as outward mobility efforts do not leave neighborhoods devoid of their most able and energetic residents, these programs can be a first step toward a more mixed population in inner-city areas. After de-densification, community building can amplify and sustain the enhanced neighborhood environment.

THE GAUTREAUX PROGRAM: EXPANDING HOUSING CHOICES FOR MINORITY FAMILIES³³

The immediate goal of any effort to revitalize inner-city communities is to make these areas places where residents want to live. However, the ultimate goal should be to widen residents' options for quality communities. If they choose to stay in the inner city, they should be able to find adequate amenities and social supports. However, they should also have opportunities to move to a variety of city and suburban neighborhoods.

For about 25 years, the Gautreaux program, named after the primary plaintiff in the anti-segregation suit that led to its creation, has provided this opportunity to some residents of Chicago's inner city. The program relocates minority families to private housing in more affluent white suburbs or neighborhoods and provides rental subsidies through the federal Section 8 housing voucher program so that they can afford to live there. Since its inception, the program has relocated approximately 5,000 families (currently about 525 per year) to more than 100 Chicago suburbs and outlying areas. Most have been black, female-headed families on public assistance who previously lived in public housing projects or were on their waiting lists.

The program begins each January with a telephone lottery; the first 2,000 eligible families to call are invited to participate in the program. At an orientation session, families learn to identify qualifying units (they must be in city or suburban areas with an African-American population of less than 30 percent and must charge only "fair market rent") and how to present themselves to prospective landlords. Participants have 180 days to identify a qualifying apartment; during this time, a counselor checks credit reports, criminal records, and housekeeping skills. Families receive financial and other counseling, and they continue to receive counseling for 90 days after moving into their new neighborhoods.

Research has found that adult participants in the program are more likely to be employed and their children more likely to do well in school and to attend college than their counterparts in their former neighborhoods. The program also appears to be cost-effective: The \$1,000 cost per family above that of the regular Section 8 program is offset by a reduction in welfare payments reflecting increased employment among participants.

Chapter 4

A National Community-Building Agenda



The community-building efforts described in Chapter 3 are, by their nature, decentralized and adapted to local circumstances. Moreover, these examples represent some of the best community-building practices rather than typical ones. How can these *local* and *pioneering* initiatives be systematized into a *national* response to inner-city distress?

FIVE DIMENSIONS OF GOING TO SCALE

In discussions of community building, this question is referred to as *the challenge of going to scale*. This challenge encompasses five dimensions:¹

- The first dimension is *geographic*. Resident-participatory approaches and community-based institutions flourish to a much greater extent in some urban areas than in others. For example, community development corporations (CDCs) are more numerous and successful in certain cities in the industrial Northeast and Midwest and on the West Coast than in much of the West and South.² For other types of community-based organizations, the localities in which progress is most pronounced may be different, but the geographic unevenness is similar.

A variety of factors contributes to this pattern, among them local past experience, individual leadership, and cultural considerations. While accommodating such considerations, a **national inner-city**

community-building agenda must expand throughout the nation's urban areas initiatives and institutions that currently are common in only some communities.

- The second dimension involves the *issues* to which the community-building approach is applied. To date, the construction, rehabilitation, and operation of low-income housing are the primary areas in which institutional infrastructure is well developed and the local-initiative approach has a substantial record of production. Because housing development involves a relatively well-known process and the results are immediately visible, it is often a sensible initial activity through which a community-based organization can build its skills and reputation. However, the challenge in inner-city revitalization is not just in housing but also in employment, education, health, youth development, public safety, and other aspects of life. **A national agenda for inner-city community building must ensure that the style of problem solving that has achieved notable success in housing is routinely applied to other aspects of community development.**
- The third dimension involves the *managerial strength and efficiency* of community-based institutions. To emphasize the potential of the community-building approach, this policy statement discusses some of the most impressive programs and best-run institutions in the country.

Examination of more typical community-based initiatives reveals a widespread need for strengthening leadership and management.

Many community-based institutions are young and their staffs relatively inexperienced. For example, across the nation, an estimated 39 percent of CDCs are less than ten years old, and as many as 64 percent have annual budgets of less than \$250,000.³ In addition, staff turnover in CDCs is often high.⁴ **A national agenda to rebuild inner-city communities must include enhancement of the leadership, managerial, and organizational capacity of community-based organizations. It should help promising organizations to achieve the strength and performance exemplified by the best of their peers.**

- The fourth dimension reflects the sometimes bewildering *number of public and private organizations* involved in community building at the local, state, and national levels. This diversity promotes flexibility and innovation, and it reflects the multiple problems being addressed. However, the multiple initiatives address interrelated problems and ultimately involve the same residents and institutions. Unnecessary duplication of organizations can increase complexity, costs, and delays. Therefore, **a national agenda for inner-city community building must enhance coordination among the many participants in the community-building system.**
- The fifth dimension involves the need to bring the numbers and achievements of community-based initiatives more in line with the *magnitude of the problems* being addressed. Consider, for example, low-income housing. In 1990, CDCs throughout the country produced almost 23,000 units of badly needed housing, approximately two-thirds of them in urban areas.⁵ Yet, an estimated 600,000 to 2.2 million persons nationwide are homeless, and 2.4 million low-income central-city households

pay half or more of their income for rent.⁶ The disparity between need and achievement is even more pronounced in problem areas other than housing. **A national agenda to rebuild inner-city communities must bring substantially more resources to bear on the problems of these communities. To do so, it must redirect public and philanthropic funds and creatively mobilize market forces and incentives.**

The common element among these five dimensions of going to scale is the relative newness of the community-building approach. This newness is reflected in its limited inclusion in current public policies and in the modest scale of many local initiatives. It is appropriate to treat this approach as the *infant industry* that it is, a promising direction that should be brought to fruition through conscious policies of support and development.

CED believes that the resources invested in community building should be expanded in an incremental fashion. Several of the recommendations in this chapter call for additional public, corporate, and philanthropic support through grants, tax credits, contracts, and other mechanisms. Although we recommend no specific levels of expenditure, our vision is one of *modest but constantly growing* investments. In the early stages of this process, the majority of additional resources should represent reallocations toward community-building initiatives from other, less community-based efforts. The freshness of the community-building approach, the breath of hope it brings to a problem over which many have despaired, provides an attractive rationale for this reallocation. As the effectiveness of community building becomes more widely recognized, political support for additional expenditures — particularly from public programs — should follow. By pursuing this incremental approach, the nation can appropriately balance its concerns about the unmet needs in its distressed urban communities and fiscal responsibility in the public sector.⁷

AN AGENDA FOR AMERICA'S INNER CITIES

CED believes that the nation should adopt the community-building approach as the core of its agenda for the inner cities. Many important institutions in American society already support the community-building philosophy, and a number of institutions, collaborations, and alliances already exist. One approach to the future growth of such activities would be to centralize them, for example, in a more powerful U.S. Department of Housing and Urban Development. CED does not endorse such an approach. To attempt to bring administrative or managerial coherence to this national effort would make organizational engineering the focus, not inner-city problem solving. A centralized effort would also concentrate responsibility in a few hands and reduce the sense of obligation felt by the rest of society. And centralization would dampen the innovation that is the hallmark of this approach. Accordingly, CED believes that national efforts should continue to manifest themselves as they have to date: pluralistically, as a movement rather than a single organization. The heart of the effort should be parallel institutions working in support of a common vision.

The core of that vision is how organizations addressing inner-city problems should relate to each other. Community building requires that whenever possible, residents and community-based institutions should be the frontline implementers of community-targeted initiatives. Supporters from the business, government, and philanthropic sectors who share the goals and concerns of these local programs should align themselves not as separate efforts but as support systems for these initiatives. The role of these support systems is to sustain, bolster, and expand, rather than to parallel or supplant, locally based efforts.

Although this approach may reduce the role of government agencies, major corpora-

tions, and philanthropies in direct service delivery, it does not lessen their responsibilities. Commitment to this national agenda should manifest itself in specific actions and provision of substantial resources. Institutions should redirect their current efforts in major ways.

The national commitment must also be *long term*. The growth of distressed areas has been under way at least since World War II. Stabilizing and revitalizing these neighborhoods will be the work of a generation. An aggressive national effort must be sustained by long-term vision and commitment.

It is also essential that support be *broad-based*. No single institution or coalition can provide all the insights or resources needed to relieve multifaceted inner-city distress. Adherents to the approach must include those focused at the citywide, state, and national levels, with interests in a range of social problems, and those from the public, private, and philanthropic sectors.

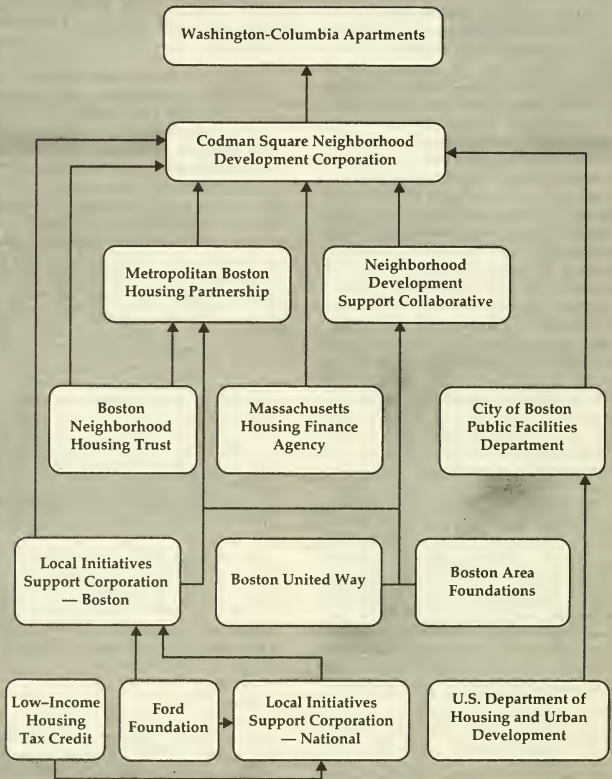
THE IMPORTANCE OF SUPPORT SYSTEMS

As an example of the institutional relationships involved in implementing this approach, consider the Washington-Columbia Apartments in the Codman Square neighborhood of Boston (see "An Example of a Support System," page 41).

By the early 1970s, Codman Square had become typical of many distressed inner-city areas in its lack of investment, substandard housing, high concentration of poor residents, and negative interaction of problems. Many of the residential buildings in the area were dilapidated, among them the 326-unit Washington-Columbia Apartments.

Since 1981, the area has been served by a community development corporation, the Codman Square Neighborhood Development Corporation (CSNDC). Through its work in the neighborhood on public safety and through participation of community residents

AN EXAMPLE OF A SUPPORT SYSTEM



on its board and in its programs, by the mid-1980s, CSNDC had become a focal point for grassroots initiatives in Codman Square.

In 1987, CSNDC decided to renovate the Washington-Columbia Apartments. This was a major undertaking for the organization, which even in 1994 had a total staff of only nine and an annual budget of only \$550,000. This initiative required more than \$21 million in project financing, all from outside the Codman Square community:

- Predevelopment funds for project planning came from the City of Boston's Public Facilities Department, allocating money from HUD.
- A mortgage for more than \$18 million was obtained from the Massachusetts Housing Finance Agency, a state agency with bonding authority to underwrite development of affordable housing.
- An additional \$2.6 million was raised through syndication to private investors of federal Low-Income Housing Tax Credits.
- A loan of \$500,000 came from the Boston Neighborhood Housing Trust, a capital pool funded by "linkage" payments from downtown developers.

In assembling this complex package of financing, CSNDC relied on technical assistance and political support from the Metropolitan Boston Housing Partnership (MBHP) (see page 43). This was a typical role for MBHP, which is a public-private partnership organized in 1983 to enhance the quality and availability of low-cost housing throughout the Boston area and to strengthen nonprofit housing developers working in distressed neighborhoods. CSNDC also received support from Boston's Neighborhood Development Support Collaborative (NDSC), a nonprofit organization created in 1987 to improve the fiscal, organizational, and program capacity of Boston's CDCs. NDSC, in turn, is supported by seven Boston-area funders, including the United Way and five foundations.

Working with these Boston-area organizations was the Local Initiatives Support Corporation (LISC) (see page 44), which has supported both MBHP and NDSC, as well as CSNDC. LISC is a leading national intermediary founded by the Ford Foundation in 1979 to support community development nationwide.⁸

By 1990, brick-and-mortar rehabilitation had been completed on the first 151 units of the Washington-Columbia property. However, crime, drug dealing, vandalism, and quality-of-life problems quickly threatened to overwhelm the newly improved buildings and the nascent sense of community among the residents. Using a grant and technical assistance from MBHP, CSNDC hired a community organizer to kindle resident action. With the organizer's help, residents evicted drug dealers, created a crime watch, and designed and built a playground on the building grounds. The organizer also helped young unemployed residents of the building to form a business to repair apartments and clean graffiti in their own building and at other properties.

The relationships in this project among CSNDC and its supporting institutions exemplify the approach to problem solving advocated in this statement: extensive involvement of the community and its organizations in service delivery (in this case, rehabilitating and managing low-income housing), with powerful public and private organizations providing expertise and financial resources. In fact, the Washington-Columbia project illustrates how support systems contribute to each of the five dimensions of scaling up.

GEOGRAPHICAL COVERAGE

CSNDC did not exist in 1980, and MBHP was created only in 1983. Yet, Boston is considered a national leader in community-building efforts. There are now about 120 public-private housing partnerships that support housing development across the nation.⁹ That leaves many communities with neither strong community-based groups nor systems

METROPOLITAN BOSTON HOUSING PARTNERSHIP

In 1983, the Metropolitan Boston Housing Partnership (MBHP) was convened to find new ways to fill the gap in affordable housing in Boston neighborhoods. In 1991, the partnership merged with Metropolitan Housing Inc. to expand to 34 other towns in the metropolitan Boston area.

MBHP considers inadequate housing just one of a myriad of problems that contribute to the deterioration of inner-city neighborhoods; any revitalization effort must be comprehensive. As a result, MBHP emphasizes the need for all groups who have a stake in inner cities to work in partnership. Its board of directors includes 19 business leaders, 8 government or nonprofit officials, and 12 neighborhood leaders, all of whom commit significant resources from their organizations as well as time for monthly meetings. Many other corporate donors, from consulting businesses to manufacturers and investment firms, have contributed financially.

MBHP supports more than brick-and-mortar development. Its central tenets are that *housing is about people* and that only motivated, involved residents can revitalize their own neighborhoods. However, because inner-city residents may lack resources and skills, MBHP operates three complementary initiatives to support their efforts:

- **Housing Development.** MBHP has helped to rehabilitate nearly 2,000 housing units and is currently working on an additional 2,000. It also provides technical support to property managers to ensure the financial and operational stability of buildings and works with banks and municipal offices to promote home ownership.
- **Promoting Self-Sufficiency.** MBHP administers more than 4,000 state and federal rental subsidies for low-income families, monitoring tenant eligibility, housing quality, and fair rent standards. To promote self-sufficiency, MBHP helps families receiving these subsidies to access social services and educational and job opportunities.
- **Resident Empowerment.** MBHP sees the development of tenant organizations and community leaders as necessary to improve housing conditions and transform neighborhoods. The partnership helps to organize residents and supports a community leadership development program that focuses on budgeting, speaking, and political skills.

As one of the first local intermediaries of its kind, MBHP has inspired the development of several dozen similar partnerships in metropolitan areas across the nation.

of supporting intermediaries. These gaps have been recognized, and several activities have been undertaken in recent years to increase the geographic coverage of CDCs and other community-based institutions. For example, LISC has supported community-organizing campaigns in such cities as New Orleans and Little Rock.¹⁰

DIVERSIFYING BEYOND HOUSING

It is no coincidence that the Codman Square example involves housing rehabilitation. Housing is the problem area in which community-based activities and support systems are most extensive. As is typical of

many CDCs, the mission of CSNDC has gradually expanded beyond housing rehabilitation to housing management and social services involving its own tenants and to a broader community development agenda for the Codman Square neighborhood.

Such expansion to additional problem areas is difficult without support systems comparable to that in housing. Fortunately, in recent years, nonhousing support systems have begun to emerge. One example is the Robert Wood Johnson Foundation's community-based efforts to reduce substance abuse (see "Joining Together to Fight Substance Abuse," page 45).

INCREASING ORGANIZATIONAL CAPACITY

With appropriate assistance, many community-based organizations could become more stable, well-managed entities operating at a substantial scale. Consulting and staff training in technical aspects of community devel-

opment (in the Codman Square case, packaging the financing for housing development) are typical examples. As community-based institutions proliferate, the need for technical assistance and consulting continues to grow.

However, training and good advice alone are not sufficient to strengthen community-

LOCAL INITIATIVES SUPPORT CORPORATION (LISC)¹¹

Established in 1979 by the Ford Foundation, LISC is a nonprofit corporation that provides financing and technical support to CDCs in low-income neighborhoods. With its help, more than 1,378 CDCs have built or rehabilitated 57,000 housing units and 9.5 million square feet of commercial and industrial space. Since its creation, LISC has raised more than \$1.6 billion and helped to leverage another \$2.6 billion to support CDC activities. In 1994 alone, LISC provided CDCs with \$396 million in loans, grants, and equity to produce more than 8,000 homes. These funds have come from more than 1,400 corporations, foundations, individuals, and public agencies.

LISC combines a comprehensive, community-based approach with geographic concentration. By focusing resources in a limited number of places (currently 35 localities in the nation), it seeks impact beyond the scale of an individual project. LISC designates an "area of concentration" when community residents, local corporate and foundation leaders, and lenders solicit its assistance, and when sufficient, broad-based local support is available. A small LISC staff and a local advisory committee serve each target locality.

Among other roles, LISC provides technical support to CDCs, trains community leaders, brokers contentious issues, and helps to form partnerships among public, private, and community groups. Fundamental to LISC's success is its ability to leverage financial resources. For each \$1 of its net worth, LISC can borrow \$5 more to lend to CDCs, which can then attract \$45 to \$50 more. Depending on need, LISC provides loans, lines of credit, loan guarantees, recoverable grants, or outright grants. Although LISC considers conventional criteria of

equity and collateral in its lending decisions, it gives more weight than most financial institutions do to a borrower's commitment and capacity to complete a project. LISC also provides difficult-to-find predevelopment money for new projects and multiyear operational support to relieve pressure on CDCs to raise overhead funds.

LISC operates three affiliates to attract additional capital for community-based development. The *National Equity Fund (NEF)* is the nation's largest nonprofit corporate investment fund for community-based housing. Using the Low-Income Housing Tax Credit (LIHTC) as a financial incentive, the fund organizes partnerships among Fortune 500 corporations to invest in affordable housing. Since 1987, NEF has raised more than \$1.2 billion from 117 corporations to help create more than 27,000 affordable homes in 80 cities. The NEF allows CDCs to execute projects on a scale previously achieved only by for-profit developers. The *Local Initiatives Managed Assets Corporation (LIMAC)*, which has raised over \$52 million, operates a national secondary market for affordable housing and community development loans. To spread risk, LIMAC pools loans and converts them into securities that are sold in large denominations to institutional investors through private placements. By selling loans to LIMAC, lenders can recycle funds to increase their community lending. The *Retail Initiative*, which initially raised \$24 million from 10 investors, will facilitate the development of 12 to 14 shopping centers. The initiative is expected to create 2,000 new jobs in its first two years of operation, and investors are projected to earn an annual return of 10 percent on their investment.

JOINING TOGETHER TO FIGHT SUBSTANCE ABUSE¹²

The Robert Wood Johnson Foundation's Fighting Back demonstration program, funded at \$45 million, is supporting the development of comprehensive, community-based initiatives to reduce the demand for drugs and alcohol in 14 communities across the country, mostly in the inner cities. The foundation, the nation's largest philanthropy devoted exclusively to health care, believes that substance abuse is a grave *health* problem that destroys individual lives and communities and generates high treatment costs. Yet, the health aspect of the substance abuse problem has been conspicuously absent from policies to address it.

Fighting Back brings together health professionals and law enforcement workers — groups that traditionally operate in isolation from one another — with a broad range of local organizations and interests such as housing authorities, schools, health care providers, insurers, media, churches, and individual citizens. Communities

selected for the program were initially given two-year grants to plan and develop comprehensive initiatives while the foundation provided technical support. The communities are currently in the implementation and operating stages of their programs; the foundation intends to evaluate their efforts at the end of five years.

To support an estimated 2,000 community-based antidrug groups not included in Fighting Back, the foundation created Join Together, a national resource center that provides technical, managerial, and strategic advice to citizen groups. The foundation also provides training, meetings and publications for neighborhood leaders, and a state-of-the-art computer network that links activists throughout the country. Finally, to encourage collaboration among concerned philanthropies, the foundation organized Funders Against Substance Abuse to share information and develop a common agenda.

based organizations. A common problem is that funds are available for specific projects, such as rehabilitation of the Washington-Columbia Apartments, but are difficult to obtain for development and maintenance of the core managerial competence of organizations. Little support is available, for example, for long-range planning, exploring new opportunities, or retaining staff between projects. Many of these organizations also need assistance in basic managerial systems, such as accounting, data processing, and personnel. Without investments in their institutional strength, they cannot undertake projects efficiently. At various times, LISC, MBHP, and NDSC have all provided operating support and technical assistance to strengthen CSNDC.

A final but critical need for expanding the scale of community-building activities is leadership. At times, community leaders simply emerge when an opportunity arises. More frequently, however, leadership must be developed.

Across the nation, a number of specialized training institutions and programs at colleges and universities have come into being within recent years. The Fannie Mae Foundation has suggested a number of alternatives for expanding such resources to foster community development leaders: a community leader education and internship program to assist in the transition of community residents from volunteer to paid positions, undergraduate programs to place talented students in internships with community organizations, a graduate school initiative to develop curriculum and promote community development as a career, and a career transition program for experienced men and women from other fields.¹³ Such developments make sense as part of a long-term national commitment.

Businesses often have unique leadership, technical, and management experience that can be used to strengthen the capacity of community organizations through internships, mentoring, technical support, or other pro-

grams. For example, the charitable contributions program of the St. Paul Companies provides operating support and resources for human capital development in community institutions, including a leadership development grant program (see below).

COORDINATION AND COLLABORATION

Because inner-city problems are interrelated, and because the residents and local institutions involved with each problem overlap, community initiatives need to work in close harmony. In some cases, effective integration may occur within one institution, where community organizations combine assistance from several support systems to address interrelated problems. In more cases, however, this harmony is achieved by inde-

pendent institutions consulting and coordinating with each other.

One level at which such collaboration is essential is the neighborhood. There it can serve as an antidote to the categorical, crisis-driven nature of most public and private programs, allowing creation of comprehensive programs to address interrelated problems. For example, a resident-centered housing management group receiving most of its support from a housing-oriented system might also receive funding from a human service system to provide counseling to families living in their properties. Or a housing group might encourage a local day-care provider or job-training program to locate within a rehabilitated building. Some federal grants require collaboration among neighborhood service organizations; for others, many neigh-

THE ST. PAUL COMPANIES: BUILDING MORE THAN HOUSING

When most corporate donation programs support community development, they fund identifiable projects such as rehabilitation of a specific building. In contrast, the St. Paul Companies, the twenty-fifth largest diversified financial company in the nation, targets a substantial share of its corporate giving to *building community development institutions*. In 1992, the company made grants of \$2.1 million to 56 community-based organizations in the Minneapolis-St. Paul metropolitan area. These unique efforts have four key characteristics:

- The St. Paul makes grants to community-based organizations for *core operating support*, not for projects but, rather, to "run the shop," retain a core staff, and develop efficient operating systems. These funds allow the organizations to set their own priorities. In 1992, about \$540,000, or 25 percent of the company's community development contributions, went to provide such support to 22 community-based institutions; core support can account for as much as one-third of an organization's operational budget.

- The St. Paul makes *multiyear commitments*, usually for two or three years, for both project support and core support. This allows organizations to implement multi-year strategies against complex problems, rather than being concerned about producing results within short-term grant periods.
- The company supports a *range of organizations* in the community development system. This range includes advocacy and outreach groups that play roles different from organizations doing brick-and-mortar development and that have particular difficulty raising funds because of their lack of concrete projects.
- The St. Paul supports *human resource development* in the community-based sector. In 1993, the company's Leadership Initiatives in Neighborhoods program provided one-year grants ranging from \$2,000 to \$38,000 to 17 community leaders. These grants promote professional development by supporting travel, training, or work with consultants or mentors.

borhood groups and local public agencies voluntarily pursue this end.

A demonstration program in the South Bronx section of New York City illustrates such collaboration on an ambitious scale. The Comprehensive Community Revitalization Program (CCRP) is a seven-year project, supported by Surdna and 11 other foundations, that will invest more than \$5.7 million in six South Bronx CDCs. All six organizations have track records in housing production and therefore have a base of experience and institutional credibility from which to pursue a broader agenda. CCRP's support has enabled the CDCs to engage in long-range planning and to identify new opportunities. They have initiated health care clinics, begun development of a child care service, and secured commitments for a \$21 million shopping center and a state-of-the-art paper-recycling plant.

Collaboration among six CDCs, in combination with support from prominent foundations, has enhanced the credibility of the individual organizations and made private and public investors more willing to become partners with them. New York State, for example, has given the CDCs special planning grants, regulatory waivers, and priority access to 26 state agencies through the state's Neighborhood-Based Alliance program. The partners in the recycling venture are the Natural Resources Defense Council, a national environmental organization; the S. D. Warren Company, a Boston paper firm; and the MODO Paper Company of Sweden, a recycling firm.

Collaboration is also important in support systems. These systems generally are not linked at their upper end to one central source. Rather, they are affiliates of sources with different program interests, such as housing, health, or public safety. However, these systems need not function like narrow categorical programs. At their best, all see their efforts as part of a broad community-building agenda and actively communicate with and promote the goals of others working in the same communities.

Effective partnerships at the city level almost always derive their impetus from close cooperation with the mayor, the city council, and key municipal agencies. Most mayors welcome collaboration among a city's business, philanthropic, and community leaders,¹⁴ in part because these partners can provide support for taking what are sometimes politically difficult positions. Mayors may also elect to undertake inner-city revitalization through flexible public-private partnerships rather than through cumbersome or overly restrictive government agencies. Moreover, these public-private organizations can sustain activities beyond the terms of individual elected officials.

The Indianapolis Neighborhood Housing Partnership (INHP) illustrates how these dynamics can create a strong force for inner-city revitalization. Since its inception, INHP has had strong support from the city's mayor and city agencies. The organization was founded in 1988 to implement the recommendations of the city's Housing Strategy Task Force, which had included representatives of several city agencies, private developers, lenders, social service agencies, and neighborhood and religious leaders. To launch the partnership, the city committed \$1.5 million from federal funds under its control. The partnership has created new financing mechanisms for housing development, helped strengthen neighborhood housing developers, and provided counseling for needy families seeking housing.

Like other strong citywide intermediaries, INHP receives support from a broad cross section of the city and commands significant resources. A major Indianapolis-based foundation, the Lilly Endowment, has provided loans and grants totaling \$8.9 million, which INHP has used to leverage more than \$10 million from a consortium of 12 Indianapolis banks and savings institutions. Thus, collaboration among business, foundation, and government leaders has led to a sustained program of assistance to the city's resident-centered initiatives.

Another ambitious metropolitan initiative to mobilize and coordinate support for local initiatives is The Atlanta Project in Atlanta, Georgia (see below).

EXPANDING RESOURCES

Community-based organizations such as CSNDC do not possess substantial internal financial resources, nor do other entities in their inner-city communities. When neighborhood organizations seek resources from outside the neighborhood through conventional channels, they often encounter skepticism and

disinterest, even for bankable propositions. Accordingly, institutions that support community-based initiatives first and foremost play the role of *unconventional* channels of finance. They raise and/or leverage funds in the form of grants, below-market loans, market-rate loans, and equity investments.

If the community-building approach is to continue to grow, the resources available through support systems must be sustained and expanded. Three examples point the way:

- The *National Community Development Ini-*

THE ATLANTA PROJECT¹⁵

Looking at the problems of inner-city Atlanta, former President Jimmy Carter realized that community action would never reverse urban decay unless it was backed by powerful leaders and institutions from outside distressed neighborhood. To mobilize these resources, he founded The Atlanta Project (TAP) as an initiative of the Carter Center in 1991.

TAP's ultimate goal is ambitious: "to prove that somewhere in God's world, in a major metropolitan center, the problems that are tearing families apart might be resolved." TAP's vision is to work as partners with Atlanta's disadvantaged neighbors so they can demonstrate their ambitions, dependability, and competence. A central objective is to overcome by concerted collaboration the tendency for federal, state, and local governments and private organizations dealing with the many problems of the inner city to work in isolation. Reflecting these high aspirations, TAP is the most comprehensive metropolitan-level experiment marshaling a city's community, government, business, and philanthropic resources in support of inner-city revitalization. To catalyze action, Carter challenged the area's leaders not to let the world witness Atlanta during the 1996 Summer Olympics as a divided city, half prosperous, half poor and despairing.

Across all sectors of the Atlanta community, the response has been resounding. A corporate partner was matched to each of 20 distressed

neighborhood "clusters," and the project enlisted additional TAP-wide corporate and academic partners. Business, educational, and medical organizations have contributed money and in-kind resources such as office space, computer equipment, and loaned executives to develop TAP's organizational capacity. Several local and national philanthropies have stepped forward to support the project, as have more than 3,000 individuals and organizations representing 100,000 potential volunteers. The city has provided office space and remained integrally involved in the development and implementation of the project, and the federal government has granted waivers to integrate social service programs and reduce paperwork.

TAP strives to provide comprehensive and coordinated support for local initiatives. To do this, it has built networks of technical and personal support for Atlanta's communities. In addition, TAP has identified successful demonstration projects from across the country as models of local efforts and established an evaluation and planning task force to review TAP initiatives.

The Atlanta Project is playing the role of a major pilot project for inner-city revitalization. As President Carter said, "In many ways we are exploring uncharted territory, with no guarantee of success, but we will not permit the uncertainties and known difficulties to deter us."

tiative (NCDI) is a joint venture of seven major foundations, three national businesses, LIISC, the Enterprise Foundation, and HUD to advance urban and rural community development. During its first round of funding, from 1991 through 1993, it raised nearly \$63 million for community building in 20 cities. Its second round, begun in 1994, will deliver more than \$87 million to CDCs in 23 cities. This initial investment is expected to leverage an additional \$660 million from other sources.

- Since authorization of the *Low-Income Housing Tax Credit (LIHTC)* in 1986, an estimated \$500 million has been channeled into the community-building system¹⁶ through sale of the credits to corporations and affluent individuals (see below). These instruments offer attractive financial returns and risk

protection and thereby can attract investors motivated by financial rather than exclusively social objectives. In this way, thousands of individuals and corporations across the nation have invested in and have a financial stake in neighborhoods into which they are ordinarily reluctant to venture.

- The Federal National Mortgage Association (Fannie Mae) was chartered by Congress in 1938 as a publicly traded, privately managed corporation. Its mission is to promote home ownership by expanding the supply of capital available to mortgage lenders through its secondary mortgage market, and its contributions are visible in every suburban neighborhood across America. Now, as part of its *Showing America the Way Home* program, Fannie Mae

GIVING INVESTORS A STAKE IN THE INNER CITY: THE LOW-INCOME HOUSING TAX CREDIT

Some businesses and individuals take an interest in inner cities on philanthropic grounds or because the connection between these neighborhoods and their self-interest is direct. Others avoid the areas, failing to view them either as places where philanthropic efforts will have a real effect or as potential investment opportunities. An essential tool attracting this latter group by offering annual financial returns of up to 17 percent has been the Low-Income Housing Tax Credit (LIHTC).

The LIHTC became part of the federal corporate and individual income tax system on a temporary basis in 1986 and was made permanent in 1993. It has become a major housing program, accounting for more than 90 percent of the low-income rental housing built in recent years, as many as 100,000 new or rehabilitated units annually.

The LIHTC allows individuals and corporations to lower their federal tax liability by claiming tax credits over a period of ten years for investments in construction or rehabilitation of low-income rental housing. Currently, each state receives an annual credit allocation

of \$1.25 per state resident, \$315 million for the country as a whole.

The LIHTC has been criticized for being less cost-effective than other approaches to providing housing to low-income renters. This point may be correct in simple brick-and-mortar terms, that is, in terms of the average cost of producing a unit of housing. However, the LIHTC succeeds in attracting capital for housing in neighborhoods where more conventional development activities have been virtually moribund. Furthermore, because it provides opportunities for community-based organizations such as CDCs to gain institutional strength by serving as housing developers, the LIHTC supports community building in ways that other approaches do not. Moreover, the LIHTC creates a connection of mutual interest between investors and inner-city communities because investors get the tax credit only if their buildings remain operational, and they rely heavily on community groups to assure the financial and physical health of their properties.

has committed an additional \$150 billion to reach moderate-income but creditworthy potential homeowners in inner cities. It will open 25 local offices to work with governments, lenders, and community groups.

These initiatives signal a growing national movement in support of inner-city community building. To date, however, neither their number nor their scale is sufficient to match the distress in the nation's urban areas. CED urges business, foundation, and civic leaders working on all aspects of inner-city problems to strengthen and expand such support systems to sustain and amplify local community-building initiatives.

ROLES FOR THE BUSINESS SECTOR

All executives, including those working far away from America's central cities, should respond to the injustice, threat to social order, and economic waste of the nation's inner cities. Senior executives from America's major corporations have a key role to play within a national community-building agenda, and the skills of top executives are uniquely suited to provide needed leadership. Business leaders are results-oriented, understand the importance of strategic planning, and control substantial financial and political resources. Moreover, they oversee organizations with leadership, managerial, and operational resources that can be utilized to strengthen community-based institutions.

Most business leaders have yet to fully embrace this role. This is in part because they fail to see a direct link between their company's health and the health of central cities, even the cities of their own metropolitan region. Yet, even companies that have a relatively limited connection to individual cities have a stake in the nation's broader economic and social health.

Other firms choose to do nothing because they feel there is little they *can* do to address

seemingly intractable inner-city problems. Yet, the examples cited throughout this statement suggest a multitude of ways for businesses to make a positive impact in inner-city communities. Emerging community-based institutions and programs, metropolitanwide partnerships, and national intermediaries offer numerous entry points for supporting a national community-building agenda.

Because of the diversity in circumstances among companies, their level and form of support for inner-city community building are likely to vary widely. However, no matter what a company's resources, knowledge, location, or business situation, all firms have strengths that they can and should utilize to help revitalize inner-city communities. CED urges corporate leaders to support the national community-building agenda in four ways (see "Recommendations for Business Support of Inner-City Community Building," page 51). Corporate executives should evaluate their company's strengths and market position to determine which ways best fit their own circumstances.

First, executives should reconsider the potential of inner-city communities in their firm's business activities. Although opportunities will vary widely across industries, nearly all firms could utilize inner-city resources in some way. Inner-city neighborhoods may offer attractive locations for plants or offices. For example, Pfizer Inc.'s pharmaceutical manufacturing plant in Brooklyn combines proximity to downtown areas and transportation facilities with low real estate costs (see "Pfizer Sticks with Its Neighborhood," page 52). They may offer customers that are underserved despite the profit potential that they represent, as in the case of supermarkets in Liberty City and Newark (see pages 22 and 29). Or they may offer employees, suppliers, and other valuable production resources, as in the case of Martin Greenfield Clothiers in Brooklyn (see "Martin Greenfield Clothiers: 175 Inner-City Workers Are Its Most Valuable Asset," page 53). As community-building

efforts take hold and improve the business environment in inner cities, executives must lead their firms to give these areas a second look. Otherwise, many firms will continue to assume that such opportunities do not exist.

Second, the support systems whose proliferation was described earlier in this chapter offer another opportunity for business executives and their companies. Executives and their firms should join local and national systems of support for inner-city community building. Multisector partnerships at the city and national levels, such as the Metropolitan Boston Housing Partnership (see page 43) and the Local Initiatives Support Corporation

(see page 44), are central to inner-city community building.¹⁷ They not only control resources and develop community-building strategies but also function as social enterprises, bringing together business, foundation, government, and community leaders who form personal relationships and coalesce into an influential constituency for inner-city renewal. Corporate executives should exercise the same leadership in community-building partnerships and intermediary organizations as they have historically played in civic partnerships to boost downtown development, attract sports franchises, and support cultural institutions.

Third, many of America's top executives wield wide influence outside their corpora-

RECOMMENDATIONS FOR BUSINESS SUPPORT OF INNER-CITY COMMUNITY BUILDING

- **Encourage utilization of emerging inner-city resources in business activities.**

Particularly where community-building efforts have begun to create a more stable and hospitable environment, executives should encourage their firms to reconsider the potential of urban neighborhoods as locations for plants and offices, minority-owned firms as subcontractors or suppliers, inner-city residents as employees, and inner-city communities as commercial and consumer markets.

- **Join local and national systems of support for inner-city community building.**

Executives and their firms should join multisector local and national partnerships to support community building. They should exercise the same leadership in relation to inner-city community building as they have in the past to boost downtown development or attract sports franchises.

- **Advocate reshaping public and nonprofit programs to reflect the community-building approach.**

As members of the boards of civic,

human service, and educational organizations and as political opinion leaders, business leaders should influence public and nonprofit institutions to allocate increased resources to distressed and threatened urban neighborhoods, to involve local residents and community institutions in service delivery, to train and identify community leaders, and to remove impediments to community building.

- **Guide corporate charitable activities and community involvement toward inner-city community building.**

Executives should encourage their firms to focus more of their corporate community-involvement efforts on distressed and threatened inner-city neighborhoods and ensure that the community-building style shapes their involvement. For example, corporations might invest in Low-Income Housing Tax Credits, provide financial support to strengthen community-based institutions, provide internships to community leaders, or offer loaned executives to strengthen community-based organizations.

tions, for example, as board members of civic, educational, and human services organizations. Business leaders also serve as political opinion leaders. When thoughtful and committed business leaders speak for inner-city communities, public officials, both executive and legislative, are less likely to treat inner-city constituencies as politically weak or marginal. **Business leaders should encourage both private and public organizations to target additional resources to distressed inner-city communities, to involve residents and community institutions in service delivery, to identify and train community leaders,**

and to remove impediments to community building.

Corporate philanthropic efforts offer a final avenue for business leadership. Philanthropic efforts within most major corporations take many forms, from cash grants to employee involvement, and support a range of worthy causes. Inner-city distress is among our nation's most pressing problems. Executives should encourage their companies to devote an increasing proportion of their philanthropic resources to these communities, and they should ensure that these resources support community-building activities.

PFIZER STICKS WITH ITS NEIGHBORHOOD¹⁸

In the early 1980s, Pfizer Inc., an international pharmaceutical company headquartered in New York City, faced a major decision. Its oldest plant was located in the Williamsburg section of Brooklyn, just across the river from Manhattan and near the city's port, highways, and airports. But Williamsburg was crime-ridden and decaying rapidly. The company either had to leave the neighborhood or help to rebuild its community.

Pfizer elected to stay. The first priority was to protect the viability of the plant for the short run. Pfizer met with New York City officials to arrange cleaning and fencing of vacant lots in the neighborhood. The company also invested \$120,000 to renovate and improve security in the nearby subway station and began to monitor the station around the clock via closed-circuit television. Both company employees and neighborhood residents benefited through reduced crime.

Pfizer realized that such measures were merely stopgaps and that maintaining a viable environment for business would require addressing problems more comprehensively. The company began to work with community groups and the city to create a renewal plan that would meet the neighborhood's needs while preserving the area's residential-industrial mix.

The first phase of the plan generated the

Broadway Triangle Urban Renewal Project, including development of an industrial park and low- and middle-income housing on 44 acres adjacent to the Pfizer plant. The city designated the Broadway Triangle a pilot site, making it eligible for special assistance in housing, schools, job creation, and public safety. Financial and technical assistance from Pfizer, Brooklyn Union Gas, Consolidated Edison, the Enterprise Foundation, LISC, and Fannie Mae has supported housing development and home ownership in the neighborhood. Pfizer is also committed to improving education, providing mentors, equipment, and other support to the local high school and helping to create a bilingual public elementary school.

The company's efforts are beginning to pay off, as other firms have started to return to the neighborhood. Through persistence and effort, Pfizer has made positive changes in its neighborhood without compromising its responsibilities to shareholders, employees, or customers. According to Don Jacob, Pfizer Vice President, External Affairs, U.S. Pharmaceutical Group, "Leaving might have been easier. But Pfizer is a long-time resident of the community, and we have a major investment there in people, plant and equipment. . . . Clearly, [staying] was the right decision then — and is the right decision now."

MARTIN GREENFIELD CLOTHIERS: 175 INNER-CITY WORKERS ARE ITS MOST VALUABLE ASSET

Martin Greenfield is afraid of ever being forced to move his textile factory from the Williamsburg neighborhood of Brooklyn. This reaction is based on more than nostalgia for a neighborhood where the firm has prospered for 18 years. He fears losing access to the 175 skilled, stable employees who produce hand-tailored clothing for prominent retailers such as Brooks Brothers, Neiman Marcus, and Donna Karan. In an industry that is otherwise rapidly moving its production overseas to utilize cheaper labor, his advantage is quality. He has found it in his inner-city workforce.

Greenfield Clothiers draws nearly all its workers from Brooklyn or the other boroughs of New York City and from many different racial and ethnic backgrounds. Some come to the company through personal contacts with current employees. Others are screened and referred by the East Williamsburg Valley Industrial Development Corporation, an affiliate of the St. Nicholas Neighborhood Preservation Corporation (see page 25). The company then invests in developing the sewing and tailoring skills of its employees, which it can afford to do because their low turnover means that the training will produce returns over many years.

Through investment in Low-Income Housing Tax Credits, internship opportunities for inner-city community leaders, philanthropic contributions, loaned executives, technical advice, and other means, the nation's business leaders can strengthen community-based institutions and support resident-centered initiatives.

Through these multiple channels of influence, committed business leadership can increase the effectiveness of community-building initiatives and help elevate inner-city issues to prominence on the national agenda.

MAKING THE PUBLIC SECTOR A COMMUNITY DEVELOPMENT PARTNER

No agenda for the inner cities will succeed without the participation of federal, state, and local governments.

One level at which the public sector affects inner-city communities is through economic and social policies that affect these areas in common with all communities across the nation. Appropriate macroeconomic policies to generate employment growth, initiatives to reform the public assistance system, efforts to improve the performance of the nation's schools, and similar initiatives all significantly affect inner-city communities. Failures in the nation's public assistance and educational systems in particular adversely affect the life chances of residents of distressed urban areas. Inner-city community building cannot substitute for national action to improve these inadequate systems.

Yet, in the absence of strong support for resident-centered initiatives, government action on any of these fronts will have only a marginal impact on inner-city distress. Federal, state, and local government policies and programs can directly promote community building in inner cities in ten specific ways (see "Recommendations for Government Support of Inner-City Community Building," pages 54-55):

- Public officials and agencies should begin by **controlling the violence and weapons that disrupt community life**. Daily life in some inner-city neighborhoods is so violent and out of control that terms such as *community building* and *shared civic values* are meaningless. No community organization can thrive on streets where children murder each other without remorse and where gangs, drugs, and violence have replaced family, work, and the rule of law. No social capital can be created in neighborhoods where residents are afraid to leave their homes to go to the grocery store, to recreation programs, or to community

meetings. No enhanced connections between inner-city neighborhoods and mainstream society are realistic when outsiders refuse to enter the neighborhoods and many Americans fear their residents. Where civil order has broken down, local, state, and national governments must work to restore a basic level of safety and sense of security in these neighborhoods and across urban America.¹⁹

The proliferation of firearms, especially among juveniles, significantly contributes to civil instability within inner-city neighborhoods and the fear-based separation between these communities and the broader society. The number of gun homicides by juveniles increased nearly threefold between 1984 and 1991 while nongun homicides remained constant.²⁰ **Federal, state, and local governments can support**

RECOMMENDATIONS FOR GOVERNMENT SUPPORT OF INNER-CITY COMMUNITY BUILDING

- **Control the weapons that disrupt community life.**

Violence and fear can fatally disrupt efforts to build community in distressed inner-city neighborhoods. Federal, state, and local jurisdictions must restore a basic level of safety in these areas. Their efforts should include vigorous enforcement of existing laws to eliminate the national plague of cheap handguns and assault weapons and to take firearms out of the hands of juveniles and criminals. Additional legislation should impose substantially broader restrictions on weapons and ammunition.

- **Reduce the impact of illegal drugs on community life.**

Drugs represent another major disruptive force in inner-city communities. Federal, state, and local governments should reduce the adverse impact of illegal drugs on community life, particularly by shifting the emphasis in drug policy from incarceration of drug abusers to prevention of drug abuse and rehabilitation of addicted individuals.

- **Review and modify policies that further concentrate social and economic problems in distressed communities.**

Across many issues — housing, criminal justice, environmental management, and others — the public sector has often promoted the concentration of distressed

populations and undesirable facilities in small geographic areas. Decision makers need to reconsider such policies in light of their impact on communities and reverse those that overstress the ability of communities to respond resiliently to problems.

- **Work to eliminate racial, ethnic, and other forms of discrimination in access to jobs, credit, and housing.**

Discrimination continues to undermine the economic and social bases of inner-city communities. Public agencies should vigorously enforce antidiscrimination statutes aimed at redlining in lending and discrimination in employment, housing, and public accommodations. Additional legislation to gather data on financial services not covered under the Community Reinvestment Act is also desirable.

- **Encourage partnerships that unite inner-city residents and their community-based organizations with the philanthropic sector, local government, and the business community.**

Public agencies are essential partners in community-rebuilding efforts. Public leaders and agencies should routinely consult community-based organizations on decisions affecting their neighborhoods, join ad hoc coalitions with community groups to implement specific

community building by eliminating the national plague of cheap handguns and assault weapons and taking firearms out of the hands of juveniles and criminals. Such efforts have been advanced by recent federal legislation mandating waiting periods for the purchase of guns, banning selected assault weapons, and enhancing data systems to track weapon purchases. At the federal, state, and local

levels, these approaches should be continued through vigorous enforcement of existing laws²¹ and expanded through legislation imposing substantially broader restrictions on weapons and ammunition.

- The traffic in illegal drugs that is rampant in many inner-city neighborhoods is another major disrupter of community life. This pernicious trade leaves

projects, participate in ongoing multi-sector partnership institutions, and require collaborative planning and matching grants for publicly funded initiatives.

- **Expand the use of community-based organizations in implementing programs and delivering services in inner-city communities.**

Federal, state, and local governments should routinely contract with community-based organizations for delivery of publicly funded services. Community-based organizations can be effective delivery vehicles for services in inner cities because of their existing relationships within a community, understanding of community needs, ability to coordinate multiple programs into comprehensive packages, and employment of local residents. Moreover, these organizations can gain experience that strengthens them as resources for addressing other problems.

- **Operate government services and programs in a community-building style.**

Direct government delivery of services should be implemented in a more community-based style. For example, public agencies should aggressively seek opportunities to integrate and coordinate services and design administrative boundaries and service areas (such as police precincts) to match neighborhoods.

- **Invest public funds in strengthening the capacity of community-based organizations.**

Sustained community building occurs primarily through ongoing institutions. Public funds from sources such as Community Development Block Grants should be used to enhance the leadership, managerial, and organizational strength of CDCs and other community-based institutions.

- **Expand the Low-Income Housing Tax Credit and create a similar tax credit to support the development of commercial properties in inner-city areas.**

Inner cities need the resources of, and connections to, investors outside their neighborhood. The federal government should expand the Low-Income Housing Tax Credit program, which connects investors to housing initiatives in distressed communities, and should develop a parallel mechanism to support commercial and industrial development.

- **Support research on inner-city problems and community-building programs.**

Evaluation of community-building initiatives and dissemination of information on best practices in these efforts are currently inadequate. Government (as well as foundations) should support such activities, as well as monitor conditions in urban areas.

shocking numbers of inner-city young people dead or scarred with criminal records. It leaves addicts (and often their children) unable to function as learners, earners, parents, or community members. It leaves communities disabled by violence among rival drug-selling gangs and from drug-addicted individuals and may influence those not involved in the drug industry to arm themselves.²²

Current drug-fighting efforts rely too heavily on interdiction and not enough on education to reduce drug use. Incarceration of drug abusers only scars them with criminal records without addressing their fundamental problem of drug addiction. Federal, state, and local governments should reduce the adverse impact of illegal drugs on community life. In particular, they should shift resources from the current incarceration-oriented approach to preventing drug abuse through education and to rehabilitating addicted individuals.

CED's proposed approach is more consistent with community building in giving individuals the opportunities and support to make the right choices about drug use instead of merely punishing them and removing them from the community. It is also the approach most frequently advocated by inner-city community leaders. For example, in one recent survey, community leaders favored allocating 73 percent of antidrug efforts to prevention and treatment. This proportion contrasts sharply with the current pattern of federal spending, in which less than 30 percent is allocated to prevention and treatment.²³

- A fundamental characteristic of distressed inner-city areas is the concentration of distressed individuals and undesirable facilities. Through a range of explicit and implicit decisions, the public sector has often promoted this concentration, and the resultant load and negative interaction of problems have overwhelmed the problem-

solving resiliency of many inner-city communities. Therefore, across all programs and policies that affect inner cities, including housing, criminal justice, environmental management, and social services, the public sector should review and modify policies that concentrate social and economic problems in distressed communities. For example, in public housing, the criteria for locating housing sites and selecting tenants have tended to colocate large numbers of troubled families in already-distressed neighborhoods. In other cases, undesirable facilities such as waste treatment plants and halfway houses for ex-offenders are concentrated in poor neighborhoods. Instead, federal, state, and local housing programs should promote a more disbursed distribution of low-income residents through scattered-site public housing and housing mobility programs, as well as recruit intact, working families as public housing tenants; and federal, state, and local governments should avoid concentrating undesirable facilities in distressed communities beyond their capacity to absorb them.

- The public sector should continue to work to eliminate racial, ethnic, and other forms of discrimination in access to jobs, credit, and housing. Discrimination in many aspects of daily life continues to deny many inner-city residents opportunities to improve their lives. It perpetuates and concentrates poverty in inner-city communities and thwarts connections between those communities and the rest of American society. Public agencies should vigorously enforce antidiscrimination laws aimed at redlining in lending and discrimination in employment, housing, and public accommodations. At the federal level, the most important of these laws are the Civil Rights Act of 1965, the Community Reinvestment Act, the Fair Housing Act, and the Equal Credit Opportunity Act. Additional legislation should extend data collection to

credit practices of financial services not covered under the Community Reinvestment Act.

- **The public sector should encourage partnerships that unite inner-city residents and their community-based organizations with the philanthropic sector, local government, and the business community.** Community-based initiatives within distressed neighborhoods cannot proceed far or fast without the participation of powerful public and private actors from outside their communities to provide financial, technical, and political support. The public sector should routinely consult community-based organizations on decisions affecting their neighborhoods; join ad hoc coalitions with community groups to implement specific projects; participate in ongoing institutions that convene the public, business, philanthropic, and community sectors; and require collaborative planning and matching grants for publicly funded initiatives. Through such means, local, state, and federal governments can make these partnerships important institutions and establish the partnership approach as the standard in addressing inner-city problems.

The federal Empowerment Zone and Enterprise Communities programs are, in one aspect at least, good examples of public efforts designed to implement this principle. We do not endorse such programs' efforts to relocate businesses to distressed areas, a central aim of these initiatives, because they are likely to fuel unproductive bidding wars among localities. However, we endorse the *planning process* required of cities applying for the grants. Each applicant had to create a strategic plan through a bottom-up process that involved a city's government, business, community, and philanthropic sectors. The programs also require private resources and support that can be leveraged with public resources.

This principle of partnership can also be applied to government policies addressing

the needs of inner-city communities for financial services. As useful as community-based initiatives (such as community-based credit unions and development banks) may be, public policy must not consider them a substitute for connecting underserved areas to financial markets and institutions outside inner-city neighborhoods. We therefore favor efforts that increase access to mainstream banking and investment services for inner-city customers as well as efforts to create separate community-based financial institutions. An exclusive focus on the latter might leave inner-city areas reliant on financial institutions with only narrow constituencies and limited capital bases and fail to integrate inner cities into national capital markets and networks.

State and local governments can often reshape existing programs to support community-based initiatives. The federal government gives state and local governments wide discretion in administering a number of national programs, such as the HOME housing program and the Low-Income Housing Tax Credit program. States and localities also run their own programs for housing, community development, education, and public health and can target them to support a community-building agenda.

- **The public sector should expand its use of community-based organizations in implementing programs and delivering services in inner-city communities.** Community-based organizations are often particularly effective at delivering services because of their existing relationships and reputation within their communities, understanding of community needs, ability to coordinate multiple programs into comprehensive packages, and employment of local residents. They may also be willing to work in neighborhoods in which other organizations are reluctant to operate. At the same time, the revenues and experi-

ence these organizations gain can strengthen them to serve as resources for addressing other community problems.

The federal, state, and local governments should aggressively seek opportunities to employ community-based organizations as frontline implementers of public initiatives. Federal, state, and local legislation should encourage contracting with community-based organizations for the delivery of publicly funded services.

The HOME program of the U.S. Department of Housing and Urban Development has been among the first to recognize that community-based organizations constitute an important infrastructure for program implementation, in this case, the 2,000 CDCs in distressed communities across the nation that are developing decent, low-cost housing. HOME is designed to strengthen city- and state-level partnerships and gives state and local government agencies the discretion and incentives to put community-based organizations at the center of their efforts. All jurisdictions receiving HOME grants must set aside at least 15 percent of their funds for community-based organizations and may grant all of their funds to them.

Other federal, state, and local programs should increasingly adopt the same structure, funding community-based organizations as frontline service deliverers.²⁴ This approach can be implemented in many law enforcement, education, youth development, social service, health service, family planning, housing management, and employment training programs.

- **When implementing programs directly rather than through community groups, public agencies should operate in a community-building style.** Currently, public agencies tend to operate in isolation from each other, frustrating community attempts to provide comprehensive services to residents. One hallmark of the community-building style is aggressively to seek

opportunities to integrate previously uncoordinated services and deliver them comprehensively, for example, by collocation of services administered by different agencies, case management to integrate multiple forms of assistance to an individual or family facing multiple problems, and "passport" eligibility for persons who qualify for one program to participate in other programs without filing repetitive eligibility applications.²⁵ A second hallmark is establishment of administrative boundaries and service areas (such as police precincts) to match neighborhoods.

- **The public sector should invest in strengthening the organizational capacity of community-based institutions.** Sustained community building occurs primarily through ongoing institutions. Some distressed inner-city communities have few local leadership institutions. In others, such organizations exist, but make only limited contributions because they must constantly struggle for survival. Public funds, from such sources as Community Development Block Grants and the HOME program, should be used to enhance the organizational strength of community institutions so that they are able to deliver services and join partnerships.²⁶ Typical needs are staff development, more efficient management systems, and enhancement of organizational stability through multiyear funding and funding not tied to specific projects.
- **The federal government should expand tax credits that create connections between outside investors and inner-city communities.** The new national agenda for the inner city advocated in this statement relies on redirecting the support of resource-rich, influential, established outside institutions toward inner-city initiatives. Investment in inner-city projects by those outside the neighborhoods brings capital into distressed areas and builds

linkages of information and concern between inner-city communities and mainstream society. Each year, the federal government's Low-Income Housing Tax Credit (see page 49) connects thousands of corporate, individual, and institutional investors and billions of dollars to projects in distressed urban neighborhoods. Nationwide, it supports development of an average of 110,000 units of low-rent housing per year.

Low-income housing might alternatively be built through direct government expenditures: Some cost-benefit studies have indicated that such direct approaches produce housing at a lower cost per unit.²⁷ However, tax credits have the important advantage of creating new networks of stakeholders in inner-city areas. The thousands of individual and institutional investors who participate in the LIHTC suddenly have a *connection* to the inner city. Instead of marginalizing the construction of affordable housing as an activity of a few government agencies, the LIHTC system creates a powerful link between housing-deprived areas and national capital markets. In addition, the LIHTC supports a type of housing production that produces more than shelter. The community-based organizations that often utilize tax credits to develop housing are leaders in community-building efforts that produce a range of improvements. We recommend an expansion of the total pool of Low-Income Housing Tax Credits available nationwide and an increased allocation of these funds for work in inner-city communities. Because the economic development agendas of distressed inner cities extend beyond housing, we also support creation of a parallel tax credit to support commercial and industrial development in distressed communities.²⁸

- There is a key role for publicly supported research and development. Although community building has many successes to its

credit, it is only beginning to undergo the systematic experimentation, evaluation, assessment, and dissemination of information needed to support a broad national commitment to the approach. **We applaud the past efforts of those foundations that have taken the lead in funding and evaluating innovative community-building pilot programs and urge them to continue to do so.** We urge others in a position to sponsor research, in academia, government, and philanthropy, also to support the systematic study of community-building activities. Carefully designed, controlled evaluations are needed to develop a knowledge base to support further development of community-building policies and practices. Dissemination of information about best practices can help strengthen the performance of community-based initiatives. Finally, there is a need to monitor the condition of urban areas and to publicize trends so that the nation can gauge the urgency of urban problems and measure the impact of the community-building approach.

* * *

On a subject where a constant din of negative news too often leads the nation to despair, CED's message is one of hope. We are excited by local efforts that are solving complex inner-city problems and rebuilding distressed communities. These examples teach that where social capital is insufficient, it can be developed; that leadership and commitment can make it grow; and that distressed communities can flourish once again.

Business, government, and the philanthropic sector should recognize the new opportunities demonstrated by these impressive examples. Through a *new partnership* between community-based initiatives and resources from outside the inner city, that recognition can be translated into action. Together, we can rebuild an urban environment that contributes to, rather than detracts from, a humane and healthy American society.

APPENDIX

THE 100 LARGEST AMERICAN CITIES, RANKED BY THEIR POPULATION LIVING IN DISTRESSED NEIGHBORHOODS, 1990

City	Number of Persons Living in Distressed Neighborhoods		Percent of Total City Population	
	Number	Rank	Percent	Rank
New York	1,168,932	1	16.0%	23
Detroit	485,659	2	47.2	1
Chicago	472,790	3	17.0	20
Philadelphia	248,521	4	15.7	24
Los Angeles	205,936	5	5.9	56
Cleveland	157,083	6	31.0	4
New Orleans	142,376	7	28.6	5
Baltimore	138,251	8	18.8	18
Milwaukee	136,445	9	21.7	16
Memphis	133,352	10	21.9	15
Houston	108,627	11	6.7	51
Buffalo	107,413	12	32.7	3
San Antonio	106,817	13	11.4	34
St. Louis	100,868	14	25.4	8
Atlanta	91,770	15	23.3	11
Newark	78,232	16	28.4	6
Columbus, Ohio	67,363	17	10.6	38
Cincinnati	65,736	18	18.1	19
Miami	58,505	19	16.3	22
Shreveport	53,513	20	26.9	7
Flint	53,488	21	37.9	2
Pittsburgh	53,307	22	14.4	28
Dallas	53,194	23	5.3	58
Baton Rouge	53,190	24	24.2	10
Birmingham, Alabama	51,576	25	19.4	17
Jackson, Mississippi	45,373	26	23.0	12
Dayton	44,611	27	24.5	9
Washington, D.C.	44,006	28	7.2	49
Minneapolis	42,760	29	11.6	33
Toledo	42,624	30	12.8	31
Louisville	41,224	31	15.3	26
Syracuse	36,893	32	22.5	13
Boston	34,640	33	6.0	55
Sacramento	33,662	34	9.1	44
Jacksonville	33,639	35	5.3	58
Norfolk	33,303	36	12.8	31
Akron	32,298	37	14.5	27
Rochester	32,237	38	13.9	30
El Paso	31,553	39	6.1	54
Tampa	31,527	40	11.3	35

City	Number of Persons Living in Distressed Neighborhoods		Percent of Total City Population	
	Number	Rank	Percent	Rank
Nashville-Davidson	31,112	41	6.4	53
San Diego	30,820	42	2.8	75
Oklahoma City	29,867	43	6.7	51
Oakland	29,459	44	7.9	48
Montgomery	29,083	45	15.6	25
Mobile	27,933	46	14.3	29
Gary	26,312	47	22.5	13
Springfield, Massachusetts	26,053	48	16.6	21
Fresno	25,592	49	7.2	49
Indianapolis	24,516	50	3.4	72
Fort Worth	23,894	51	5.3	58
Kansas City	23,805	52	5.5	57
Denver	23,217	53	5.0	62
Stockton	22,265	54	10.6	38
Corpus Christi	20,987	55	8.2	46
Richmond	19,397	56	9.6	42
Little Rock	19,312	57	11.0	36
Phoenix	17,894	58	1.8	83
Tacoma	17,286	59	9.8	41
Columbus, Georgia	17,166	60	9.6	42
Long Beach	16,972	61	4.0	67
Austin	16,956	62	3.6	70
Providence	16,815	63	10.4	40
Chattanooga	16,699	64	11.0	36
Wichita	15,178	65	5.0	62
Knoxville	14,699	66	8.9	45
Spokane	14,132	67	8.0	47
Portland	12,499	68	2.9	74
San Francisco	11,932	69	1.6	84
Seattle	11,816	70	2.3	80
St. Paul	11,751	71	4.3	66
Lubbock	9,568	72	5.1	61
St. Petersburg	8,838	73	3.7	68
Omaha	8,506	74	2.5	78
Jersey City	8,445	75	3.7	68
Worcester	8,396	76	4.9	64
Charlotte	7,805	77	2.0	81
Raleigh	7,345	78	3.5	71
Lexington-Fayette	7,188	79	3.2	73
Las Vegas	6,598	80	2.6	77
Fort Lauderdale	6,526	81	4.4	65
Tulsa	5,982	82	1.6	84
Grand Rapids	5,296	83	2.8	75
Greensboro	4,439	84	2.4	79
Des Moines	3,787	85	2.0	81
Fort Wayne	2,612	86	1.5	86
Honolulu	2,390	87	0.7	87
Tucson	1,238	88	0.3	88
Amarillo	368	89	0.2	89
11 other cities	0	--	0.0	--
All 100 cities	5,705,040		11.1%	

SOURCE: John D. Kasarda, "Inner City, Concentrated Poverty and Neighborhood Distress: 1970-1990," *Housing Policy Debate* 3 (1993): 290-293; *Statistical Abstract of the United States*, 1992 (Washington, D.C.: U.S. Bureau of the Census, 1992), Table 38.

NOTES

CHAPTER 1

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2. Larry C. Ledebur and William R. Barnes, *All in It Together: Cities, Suburbs, and Local Economic Regions* (Washington, D.C.: National League of Cities, February 1993); Richard Voith, *Do Suburbs Need Cities?* (Philadelphia, Penn.: Federal Reserve Bank of Philadelphia, 1994); Charles F. Adams, Howard Fleeter, and Mark Freeman, "Flight from Blight" (Paper presented at the Annual Research Conference, Association for Public Policy Analysis and Management, 1994).
3. *National Urban Education Goals: Baseline Indicators, 1990-91* (Washington, D.C.: Council of Great City Schools, September 1992), p. xi; *Workforce 2000* (Washington, D.C.: U.S. Department of Labor, 1987).
4. Christopher Farrell, "The Economics of Crime," *Business Week*, December 13, 1993, pp. 72-81; Kenneth Labich, "New Hopes for the Inner City," *Fortune*, September 6, 1993, p. 83.

CHAPTER 2

1. John D. Kasarda, "Inner City Concentrated Poverty and Neighborhood Distress: 1970-1990," *Housing Policy Debate* 3 (1993): 253-302. In this analysis, "substantially above the national average" is defined as one standard deviation above the national average of census tracts in 1980, which corresponds to at least 33 percent of the households with income below the federal poverty threshold, at least 37 percent of households headed by females, at least 18 percent of households receiving public assistance, and at least 45 percent of males over 16 and not enrolled in school employed less than half the year.
2. Here, data limitations force the use of census tracts to represent neighborhoods. In reality, functioning neighborhoods are defined by the perceptions of the people who live there and may encompass only a piece of a census tract or extend to several tracts. Similarly, a census tract may contain some areas that are distressed and others that are not.
3. The ratio of threatened neighborhoods to distressed neighborhoods is based on research showing that for each neighborhood in severe poverty (defined as more than 40 percent of residents falling below the federal poverty threshold), there are approximately two additional neighborhoods with more moderate levels of poverty (defined as more than 20 percent of residents below the federal poverty threshold); see Kasarda, "Inner City Concentrated Poverty," p. 258.

4. Paul A. Jargowski, "Ghetto Poverty Among Blacks in the 1980s," *Journal of Policy Analysis and Management* 13 (1994): 288-310.
5. Laurence E. Lynn, Jr., and Michael McGeary, eds., *Inner-City Poverty in the United States* (Washington, D.C.: National Academy Press, 1990). To describe this interaction, economists sometimes use the terms *negative externalities* or *negative public goods*.
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- ber 13, 1992, pp. 1, 40; National Institute of Justice, *Gun Acquisition and Possession in Selected Juvenile Samples* (Washington, D.C.: U.S. Department of Justice, December 1993), pp. 4-7.
9. Kasarda, "Inner City Concentrated Poverty," pp. 263-265, 275, 276; *The Final Report of the National Commission on Severely Distressed Public Housing* (Washington, D.C.: The Commission, August 1992), p. 47; 1992 *Green Book* (Washington, D.C.: Committee on Ways and Means, U.S. House of Representatives, May 15, 1992), pp. 1074, 1076; *Families on Welfare: Focus on Teenage Mothers Could Enhance Welfare Reform Efforts* (Washington, D.C.: U.S. General Accounting Office, May 1994), p. 8; *Starting Points: Meeting the Needs of Our Youngest Children* (New York: Carnegie Corporation, April 1994), p. 21; National Center for Children in Poverty, *News and Issues* (Fall 1992): 5.
10. Guy Gugliotta, "Rebuilding a Community from the Bottom Up," *Washington Post*, January 24, 1993, p. A1; Robert Wood, "Standing Ground" (Keynote address to the Conference on New Strategies for Fighting Disinvestment and Reclaiming Urban Neighborhoods, Middletown, Conn., Wesleyan University, May 13, 1992), p. 11; Susan Kellam, "Public Housing: Can the Largest Assisted-Housing Program Be Improved?" *Congressional Quarterly Researcher* 3 (September 10, 1993): 800-801; Martha Burt and Barbara Cohen, *America's Homeless: Numbers, Characteristics, and Programs That Serve Them* (Washington, D.C.: The Urban Institute Press, 1989). Other estimates put the number between 700,000 and 2.2 million; see Kasarda, "Inner-City Poverty," pp. 4-18; Carol Steinbach, *A Decent Place to Live Revisited* (Columbia, Md.: The Enterprise Foundation, 1992), p. 18.
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CHAPTER 3

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hoods (New York: New School for Social Research, 1993), pp. 103-121.

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26. Richard P. Taub, *Community Capitalism* (Boston, Mass.: Harvard Business School Press, 1988); *Annual Report* (Chicago, Ill.: Shorebank Corporation, 1992).
27. *Annual Report* (Philadelphia: SEEDCO, 1993).
28. For example, within the distressed neighborhoods listed in the Appendix, an average of 54 percent of residents have household incomes greater than the federal poverty threshold. See John D. Kasarda, "Inner City Concentrated Poverty and Neighborhood Distress: 1970-1990," *Housing Policy Debate* 3 (1993): 20-21.
29. David Rusk, *Cities Without Suburbs* (Washington, D.C.: The Woodrow Wilson Center Press, 1993), p. 14.
30. Marc Bendick, Jr., and David W. Rasmussen, "Enterprise Zones and Inner City Economic Revitalization," in *Reagan and the Cities*, ed. George Peterson and Carol Lewis (Washington, D.C.: The Urban Institute Press, 1986), pp. 247-269.
31. These efforts may be accompanied by controversy about the capacity of the receiving neighborhood to absorb these new arrivals. Without bowing to pressures to maintain racial segregation or to the NIMBY syndrome (see Chapter 2), such programs should be administered with sensitivity to residents' concerns.
32. James E. Rosenbaum, "Black Pioneers — Do Their Moves to the Suburbs Increase Economic Opportunity for Mothers and Children?" *Housing Policy Debate* 2 (1991): 1179-1213.
33. Another effort in Chicago, also a result of the Gautreaux litigation, involves *scattered-site public housing*, which consists of developing public housing units not in large projects but either singly or in small buildings. For many years, this initiative was stalled because it was politically unpopular and because of the complexity of managing numerous small projects. In 1987, the federal court hearing the Gautreaux case selected a

private developer, the Habitat Company, to take over the effort, and the program began to move forward with rehabilitation of several buildings and construction of additional town houses. More such developments are planned to utilize the more than \$100 million that had accumulated over the years of inaction.

CHAPTER 4

1. Christopher Walker, "Nonprofit Housing Development: Status, Trends, and Prospects," *Housing Policy Debate* 4 (1993): 369-414.
2. This pattern is particularly pronounced for the limited number of CDCs with long histories and programs of substantial scale, such as Newark's New Community Corporation (see page 29). See also Walker, "Nonprofit Housing Development," pp. 376-381.
3. *Changing the Odds: The Achievement of Community-based Development Corporations* (Washington, D.C.: National Congress for Community Economic Development, 1991), p. 4; Avis C. Vidal, *Rebuilding Communities: A National Study of Community Development Corporations* (New York: New School for Social Research, 1992), p. 30.
4. Joseph B. McNeely, *Building for the Future* (Washington, D.C.: Fannie Mae Foundation, November 1993), pp. 5-6.
5. Walker, "Nonprofit Housing Development," pp. 373, 379.
6. Carol Steinbach, *A Decent Place to Live, Revisited* (Columbia, Md.: The Enterprise Foundation), p. 19.
7. CED's concerns about fiscal responsibility and reduction of budget deficits are presented in *Restoring Prosperity: Budget Choices for Economic Growth* (1992).
8. While LIJC has been at work in certain cities, another major national intermediary, the Enterprise Foundation, has been providing a similar portfolio of services to community development organizations in other localities. Enterprise was created in 1982 under the leadership of developer James Rouse. In the Sandtown-Winchester neighborhood of Baltimore, for example, Enterprise is testing an ambitious model of neighborhood transformation that attempts to improve almost every aspect of inner-city life, from education and health care to housing and sanitation, during a five-year demonstration.
9. Robert Whittlesey, National Association of Housing Partnerships, personal communication, 1994.
10. *Concept and Background: Consensus Organizing Institute* (Boston, Mass.: Consensus Organizing Institute, 1994).
11. *LIJC Annual Report* (New York: Local Initiatives Support Corporation, 1993); Karen E. Klein, "Empowering the People," *Los Angeles Times*, March 15, 1993; Benson

Roberts, Local Initiatives Support Corporation, personal communication; "LISC Launches National Investment Fund to Develop Retail Centers in Poor Areas," *Economic Opportunity Report* 29 (October 17, 1994): 327-328.

12. W. Anderson Spickard, Gregory L. Dixon, and Frankie W. Sarver, *Fighting Back Against America's Health Enemy Number One* (Nashville, Tenn.: Vanderbilt University Medical Center, 1993).

13. McNeely, *Building for the Future*, p. 13.

14. In some localities, political or community leaders may attempt to gain political advantage by hindering cooperative efforts. To minimize such problems, supporters of community building, especially at the metropolitan-area level, should ensure that their public-sector and community partners are legitimate leaders who enjoy broad community support and political credibility.

15. Carole Ashkinaze, *Because There Is Hope: Gearing Up to Renew Urban America* (Atlanta, Ga.: The Atlanta Project, 1993), p. 8; Jimmy Carter, *Turning Point: A Candidate, a State, and a Nation Come of Age* (New York: Random House, 1992), pp. 205-211.

16. Benson Roberts, Local Initiatives Support Corporation, personal communication, 1994.

17. CED previously urged business participation in these partnerships in *Public-Private Partnerships: An Opportunity for Urban Communities* (1982). See also Scott Fosler and Renee Berger, eds., *Public-Private Partnership in American Cities: Seven Case Studies* (New York: Committee for Economic Development, 1982).

18. Pfizer in Brooklyn — *A Redevelopment Story* (New York: Pfizer Inc., n.d.).

19. Thomas J. Klutznick, "The Peril of Our Inner Cities," *Aspen Quarterly* (Summer 1994): 82-90.

20. Alfred Blumstein, *Youth Violence, Guns, and the Illicit-Drug Industry* (Pittsburgh, Penn.: Carnegie Mellon University, 1994), Figure 7.

21. For example, local authorities may disrupt illegal gun markets and possession of guns by juveniles by

tracing weapons used in crimes, conducting "reverse stings" in which police pose as gun dealers to arrest buyers, and targeting enforcement efforts against drug and fencing organizations known to sell guns to youths. See David M. Kennedy, *Can We Keep Guns Away from Kids?* (Cambridge, Mass.: Harvard University Press, 1993).

22. Blumstein, *Youth Violence*, pp. 14, 18-20; Elijah Anderson, "The Code of the Streets," *Atlantic Monthly*, May 1994, pp. 80-94.

23. *Community Leaders Speak Out Against Drug Abuse* (Princeton, N.J.: Join Together, 1993), p. 34.

24. Atelia I. Melaville, Martin J. Blank, and Gelareh Asayesh, *Together We Can: A Guide for Crafting a Pro-Family System of Education and Human Services* (Washington, D.C.: U.S. Department of Education and U.S. Department of Health and Human Services, 1993).

25. Melaville, Blank, and Asayesh, *Together We Can*.

26. In support of these same goals, the proposed National Community Economic Partnership Act of 1993, introduced in the 103d Congress by Senator Edward Kennedy, called for \$40 million in fiscal 1995 to "enable [community development] corporations to support an administrative capacity for the planning, development, and management of low-income community economic development projects."

27. *The Cost-Effectiveness of the Low-Income Housing Tax Credit Compared with Housing Vouchers* (Washington, D.C.: Congressional Budget Office, April 1992); Michael A. Stegman, "The Excessive Cost of Creative Finance: Growing Inefficiencies in the Production of Low-Income Housing," *Housing Policy Debate* 2 (1991): 357-373.

28. A limited demonstration of a broader credit was enacted by Congress in 1993, but it does not connect inner cities to private markets as the LIHTC does. Under the 1993 CDC Contributions Tax Credit program, donors to 20 CDCs designated by the Secretary of HUD qualify for an additional tax credit equal to 5 percent of their tax-deductible contributions annually for up to ten years.

MEMORANDUM OF COMMENT, RESERVATION, OR DISSENT

Page 9, PRES KABACOFF

I agree with the importance of having neighborhood organizations at the table in urban revitalization. There is a danger, however, that other essential collaborative partners may view this recommendation as an excuse for leaving the table. In today's political climate, some national leaders are calling for the federal government to remove itself from the crisis of the inner cities.

CED's statement must be understood as a call for reshaping government involvement, not reducing it. The problems of the inner city are dire and complex. Unless government brings its distinct powers and resources to bear on these problems, complementing the

contributions of business, nonprofit, and neighborhood entities, we risk many of our older cities becoming uninhabitable. In an environment of reduced government commitment, things can get far worse; one needs only to look at São Paulo, Rio de Janeiro, and Mexico City.

The nation's public systems for social services delivery, employment creation, economic development, and regional governance urgently require fundamental reform. CED must continue its work on urban issues by addressing these matters. Otherwise, the community-based approach to urban revitalization urged in this policy statement is incomplete.

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Chairman BOND. Thank you very much, Dr. Bendick.

Let me turn to my colleague from Massachusetts, Senator Kerry.

Senator KERRY. Mr. Chairman, thank you very much. I apologize for not being able to be here earlier and for, like many of us, not being able to stay through the whole thing. I appreciate very much the fact that you are holding this hearing, though I must say from my perspective there is a certain contradiction in what is taking place within the reconciliation process; both the tax bill, the Medicare cuts, and other things that are happening are almost a monument of contradiction to what this hearing is about.

I have worked very closely with Mr. Grogan and LISC and I know well what non-profits can do in the effort to try to leverage change in the hurting urban and rural communities of this country, which are growing incidentally, not diminishing. It is very clear that we can package responses in any number of names. I see that colleagues were here testifying earlier today, Senator Kay Bailey Hutchison, Senator Lieberman and others. You have a proposal, the HUBZone proposal. We have got urban enterprise zones, we have got enterprise zones.

We have got countless different efforts. But the bottom line is this, and everybody understand it, all of those efforts are based on the notion that you have to make the bottom line more attractive to a business in order to come into a community that is troubled. Every single effort, call it what you want, says to a business, we are going to reduce your cost of doing business or make your return on investment one that will attract you here.

So that can be done through a subsidy. It can be done through a credit. It can be done through a set-aside. But the bottom line is the same bottom line. The truth is that everything that is happening in Washington is moving contrary to what this hearing is about.

We live with the notion somehow in this country that poverty creates crime. I think what we have learned is really that—excuse me, the reverse. Most people say, if you have got this enormous amount of poverty you are going to have a lot of crime. The fact is that crime creates poverty. In many of the communities of our country that are hurting that we are here talking about today, we have had a reduction in police departments. We do not have enough cops on the street.

One of the precursors to capacity to regrow or renew a community is simple order. Order out of chaos. Drug dealers on the street corners, pimps and prostitutes, defy any kind of investment incentive. Unless we are sufficiently willing to put people in place who will begin to deal with that, we are not going to begin to deal with the problem.

We tried last year to put more police on with something called community policing and it works. It works. We have got 26,000 additional cops on the streets of America now, and in every place where those cops are it is making a profound difference in the lives of the people. You can go down the street, and I have done this in community after community: Lowell, Massachusetts, Boston, Northampton, Springfield. The people will tell you, where the cops are present—the store owners will tell you, the jobs come back, the

stores come back, people come back and it begins to recommercialize. Yet we are talking about cutting that money.

So it seems to me that there is a whole patchwork that is just so patently self-evident about what makes a difference. If your drug addicts have nowhere to go for treatment, you are not going to revitalize a community. If you do not have police officers walking the streets, you are not going to revitalize a community.

Now we have had some great experiments in Boston. We had companies that located in the toughest areas; Digital is an example, Stride Rite is an example. They have left. Despite all the tax incentives, despite all the good intentions of corporate executives who felt corporate responsibility, they have left.

Paul Grogan has to come up here every year and beg us to reinstitute the low-income housing credit. Yet everybody knows, there is not one of you who will not testify that that is not a precursor to the capacity to revitalize communities. It should be permanent. You want people to invest in the long term; make it permanent.

So I say, Mr. Chairman, this is a very important hearing and I appreciate your having it. But we are just going to be playing with tiny little band-aids on this problem of growing urban violence, growing alienation, growing social disintegration.

I am not talking about Government programs any more. That is not what I am suggesting. I think there is a new model. The new model is LISC. The new model is for us here at the Federal level to empower local community entities that have a track record of making a difference to be able to do things. Non-profits, non-governmental entities, whether it is boys clubs or girls clubs, YMCA's, YWCA's, youth builds, city ears, LISC's, they will make a difference in these communities if we will see the light and empower them. I think that is the most powerful sort of local community, rural or urban, restoration program that there is.

I am very grateful to all of you for taking the time to come in today. I apologize for—but I wanted to make that statement on the record because I think it is very important for us to put this hearing and these efforts in their proper context. Unless we have a broad-based approach to this, none of these things are going to make a difference. Then we are going to come back 4 years later and we are going to say, see, we told you they would fail. There is a pre-ordained failure pattern that we build into this because we are always doing it just at the fringe of one effort or another rather than in the conglomerate.

Thank you, Mr. Chairman.

Chairman BOND. Thank you very much, Senator Kerry. I do have some questions I was going to ask of the witnesses, but let me just say I am very sorry that you do not see the compatibility between the efforts to balance the budget and the need to prioritize Government activities to encourage the development in communities which need assistance. I think to say, as we have done and as the Administration has done, that the only way we can build our communities is to continue to run a \$200 billion a year deficit—

Senator KERRY. I never said that.

Chairman BOND [continuing]. Which threatens to bring on—

Senator KERRY. I never said that. I voted for a balanced budget, but I have never said that.

Chairman BOND. I gave you an opportunity to express your views. You have cited everything that is going on in Washington today, and you are criticizing, obviously, the Republican budget proposal. There is one alternative proposal, and that is the President's proposal which is to continue, according to the Congressional Budget Office, a \$200 billion a year deficit for 10 years.

I had an argument with Secretary Kemp. He does not like CBO scoring. Frankly, the only person that exercises rules around here is the Congressional Budget Office. To continue a \$200 billion a year deficit, if that is the choice between what we are doing now, will bring back inflation. It clearly will bring back much higher interest rates that will kill the creation of jobs and kill the ability of private initiatives and community initiatives to create jobs where they are needed.

The Congressional Budget Office has said that when we lock in a plan to balance the budget, and the year projected is the year 2002, it will create 6 million new jobs, which are badly needed. It will increase private incomes by 16 percent. It will lower interest rates by 2 percent. These are the building blocks with which we need to prioritize Government resources in order to achieve the goals that I believe that we all share.

Finally, I would add that my 14-year-old son is a fullback and an inside linebacker, and I am not going to go home and tell him that I want to continue adding trillions of dollars to his credit card because I do not want to suffer the possible physical abuse that I would receive from him for the fiscal abuse that we are imposing on our children.

Having said all that, let me——

Senator KERRY. Mr. Chairman, could I just as a point of personal privilege just so we have a good dialogue here, which is important, because I have great respect for you. You and I always work well together.

I just want to say to you, you are arguing against a phantom. I never said we cannot balance the budget. Never said we should not balance the budget. I am in favor of balancing the budget. And the only alternative is not the President's plan. We voted, I voted for an alternative balanced budget in 7 years. We voted on it a few months ago. We lost.

But there are a different set of choices that some of us would make in the balancing of the budget. I would not add \$8 billion to the military for a threat that does not exist. I would put it into some of these programs. So I do not want to face your son either and his wrath on an increased deficit, but I think your son might join with a lot of us in making a different set of choices here about investing in our youth while we balance the budget.

I am prepared to balance the budget. Nothing I have said can be done without being responsible fiscally. We just see a different set of choices in how you do it. We do not think you have to have a \$270 billion cut in Medicare to have a tax cut for people who are getting all kinds of breaks. We just do not believe that.

Chairman BOND. I appreciate my colleague from Massachusetts comments. If you want to save Medicare through the year 2011 you

have to have about a \$270 billion cut. If you want to save it beyond that you will have to cut more. If you want to preserve Medicare only for a couple of years then you can cut less.

Let me attempt to get back to the subject that is before us today. Let me just address a quick question to Mr. Grogan. In your written testimony you mentioned a rural LISC program, I think something that could be very helpful in our communities. Could you explain how that might work?

Mr. GROGAN. Yes. In fact, on November 1st on Capitol Hill we will be announcing a \$300 million rural initiative where we are making private capital from our corporate supporters available to 68 exemplary rural CDC's across the country. That money will be leveraged with equity through the Low-Income Housing Tax Credit with debt from banks and the Federal Home Loan Bank system which is being very helpful in this, to really extend to the rural CDC's the same kind of financing help that urban CDC's have been enjoying for some years now. Rural CDC's have really been cut off from that. We expect Rural LISC to trigger an explosion of rural development activity in housing, community facilities, and business development.

Chairman BOND. Both the HUBZone and enhanced enterprise zone ideas are aimed at attracting investors and developers. Do you have any suggestions on how these ideas can be improved, or ways it could be made more attractive?

Mr. GROGAN. Yes, I think, as I said, the formation of equity capital for businesses is really a huge problem in both distressed rural and urban areas. A targeted capital gains cut for equity capital formation in those areas—you have to look carefully at compliance issues I know with the targeted capital gains cut. But I think that we really have to focus on getting equity to these businesses. We should really all be obsessed with that.

Chairman BOND. Thank you, Mr. Grogan.

Ms. Forlaw, you have mentioned the great work that East-West Gateway is doing on transportation issues. Having worked very closely with the organization we know the tremendous efforts, the great foresight and leadership that you are supplying in that area. You have talked about in the interim moving workers to jobs in the suburbs. It seems to me that to the extent that we can we ought to begin now to encourage the development of more of those jobs in the areas so they will not need transportation. Would you comment and clarify your distinction on those?

Ms. FORLAW. We would agree with that completely. However, in the short term there are suburban employers who need workers. There are workers in the inner cities who need jobs. We have just submitted a proposal and there are five other metropolitan areas in the region who also have submitted proposals saying that for over a 4-year period and a \$2.5 to \$3 million budget we can test the proposition whether or not we can successfully connect inner city workers to jobs.

The important point about that is that it can have immediate benefits. The jobs are there now. The job training programs are already there. We have the mechanism in place to place workers in those jobs. We have talked to employers. Interestingly enough, suburban employers say what we need is not financial incentives. We

need a troubleshooter, a caseworker, somebody who can help workers make this transition. So this is an opportunity for some immediate payoffs, paychecks back into these communities, an opportunity for families to begin to accumulate assets while at the same time we are working on the preferred long term solution, which is to bring those jobs back.

Some people will try to play these off as two different and opposing strategies. I do not feel that that is the case at all. We can pursue one in the short term for immediate benefits while we are pursuing the other as a long term strategy.

Chairman BOND. Thank you, Ms. Forlaw. We certainly wish you well.

Mr. Gideon, we appreciate very much the role and the leadership that the AIA has provided in many of these areas, particularly in the projects that you mentioned specifically in Fort Worth. What kind of role do you see your organization, AIA, and particularly the R/UDAT playing in urban and rural revitalization?

Mr. GIDEON. The CRTC and the HUBZones make good partners. But the reason they make good partners, if you want to create jobs you have got to have a good infrastructure. The R/UDAT program, sending in professionals to help guide communities in their development and giving them ideas for redevelopment to create new habitats, if you will, for these businesses to get the businesses to stay in the communities.

As Ms. Forlaw said, it is an interim solution to take these people to their jobs because what happens, what we have seen in communities, as the dollars go back, as people increase in their economic status they tend to try to go to someplace else to improve their neighborhood unless their neighborhood is improved to meet them. So the physical environment that you create is very important to get the businesses to stay in the community, create the jobs, to keep the jobs in the community so the people stay in the neighborhoods.

We have got people in some of the neighborhoods in Fort Worth that have not been out of—I know it is in every city in America—that have not been out of a two-block area in their entire life. In order for them to get a job you are probably going to have to bring a job to them. To do that you are going to have to increase the infrastructure and improve the quality of the neighborhood in order to get people to come there and create jobs.

Chairman BOND. Is this service that you are providing, is this going to be available in other regions and beyond?

Mr. GIDEON. Yes, sir. It has been available in all communities all over the country. Communities make application from—San Angelo, Texas, for example, has been a R/UDAT community. One of the documents that I have for the record is about the San Angelo R/UDAT. San Angelo is a very small community compared to the inner city situation, but we have tackled all types of situations and brought in professionals in planning, architecture, economics, transportation, and other fields to study problems over a very intense period and try to give communities some direction in order to approach their problem.

Chairman BOND. Thank you very much, Mr. Gideon.

Dr. Bendick, in your testimony you mention the need for a number of different indicators to decide what areas qualify for Federal assistance. We mentioned this earlier today. What rules would you recommend to determine objectively what areas qualify?

Mr. BENDICK. Locations where the area itself is a problem are characterized by multiple problems. That is what has destroyed the community's ability to cope. That is why they no longer respond resiliently to problems imposed on the community. That is why they are no longer attached to the market forces that would redevelop their land and reemploy their residents naturally.

So the sorts of indicators that you would look for, to find an area where area-targeted assistance is appropriate are the simultaneous presence of multiple problems. Not just poverty, not just crime, not just welfare dependency, not just poor school achievement, but all of those things or many of those things at once. Your staff is aware of the work of Professor Kasarda at the University of North Carolina on how you figure out census tracts where all these things coincide. I recommend his work as the state of the art for coming up with criteria.

Chairman BOND. We are trying to craft an objective, ascertainable, effective set of criteria. You mentioned about five or six things. The problem is if you become too detailed it may become impossible to ascertain. But you have said poverty, welfare, crime?

Mr. BENDICK. These are all things which are readily available in census data.

Chairman BOND. How many factors would you put into those?

Mr. BENDICK. Two, three, or four. Your friends at the Congressional Budget Office will tell you how the budgetary impacts vary as a function of these things.

Chairman BOND. This is selection. We do not have a budgetary impact with the HUD zones, for example. [We would have a budgetary impact with other incentives.] I am asking what is the best way to define the areas on an objective basis and how far you go down the line with criteria.

Mr. BENDICK. My answer is, given fiscal stringency and the need to assist the most distressed areas first, you should be pretty stringent about the criteria; so you should look for a lot of different things going on in that neighborhood at once. This is not the kind of aid that is going to work very well if it is spread too thinly over too many areas.

Chairman BOND. So you would limit the number of areas by a multi-criteria factor?

Mr. BENDICK. That is correct.

Chairman BOND. Thank you very much, ladies and gentleman. We will have the record open for further questions. We have one of our colleagues who has now joined us for his testimony, so we very much appreciate the information and guidance that you have given us, and we will leave the record open for our colleagues to submit further questions for you to answer. We look forward to working with you on these programs. We appreciate your good guidance. Thank you.

With that, it is my pleasure to call on my colleague from Missouri, Senator Ashcroft. Welcome and good morning.

STATEMENT OF THE HONORABLE JOHN ASHCROFT, A UNITED STATES SENATOR FROM MISSOURI

Senator ASHCROFT. Thank you, Mr. Chairman. I thank you for your adjustment of the schedule so it will be possible for me to make a presentation of the remarks here. I specifically want to thank you and commend you for your efforts to try and help areas where there is a difficulty as it relates to development.

Having followed you as the Governor of the State of Missouri, and the State of Missouri benefited greatly from the enterprise zone effort which you launched in the State of Missouri, I personally witnessed the success of a number of the programs which you started and many of which I took credit for, as Governor of the State.

Chairman BOND. That is what I did to my predecessors as well. It is part of the process.

Senator ASHCROFT. Had you followed someone who had cultivated as carefully and planted as thoroughly as you had, you would have taken credit for a lot more.

I want to thank you for giving me the opportunity today to testify before this Committee. I really come here to address what I consider to be a dearth of hope and opportunity that exists for a large number of people in this country. And to try and suggest a way in which we can help change that reality, which is a tragic reality.

Go to our inner cities today and what you see could cause you to wonder if you have somehow left America and been transported to some third world setting halfway around the world. We see boarded-up buildings, useful habitation only for rats and crack addicts. You will see men congregating at street corners, uncertain about the purpose of another day without work and without the prospect of work. You will see once thriving businesses clinging to life in crime-filled neighborhoods.

How bad is it? America's urban areas suffer a murder every 22 minutes, a robbery every 49 seconds, an aggravated assault every 30 seconds. Here in Washington, D.C., a survey of first and second graders reported that 31 percent had witnessed a shooting and 39 percent had seen a dead body. And one out of every two dozen black males in America, one out of every 24, will be a homicide victim, will be murdered. This picture of our pathologies is a sobering one.

The nature and cause of the realities have been the subject of untold papers, conferences, reports, speeches, lectures, testimonies, and commentaries. There are two schools of thought, it seems. On the one hand there are those who hold to the belief that what we see in our inner cities is a crisis of character, that some people in the inner-cities do not have the right character. With supporting civic institutions and structures long gone to the green fields of the suburbs, what is left is man without moral restraint. That is one theory.

On the other hand, there are those who have long held that what we see in our inner cities is a crisis of productivity and opportunity, a crisis of no jobs, no work, and no hope for jobs or work. Without work there is no sense of purpose and with no sense of purpose there is no reason to care, and with no reason to care comes the

chaos that defines the existence of many in our once great cities. We are told to pick a side in these arguments. We are told to pick between character and productivity, between culture and economics.

I think this choice is a false choice. The crisis of our cities and the crisis of too many people is a crisis that does not fit neatly into one category or the other. To try and define the crisis as one or the other is to fall into the same trap that we have fallen into too many times in the past. The trap of believing that Government either has all of the answers or none of the answers, believing that Government can solve the crisis of productivity yet do nothing about character or vice versa. Government cannot do either one very well, but Government would be terribly wrong to step back and to say that nothing can be done.

One of the first things that Government should do, however, is to soberly assess its contribution to the problems in the cities. In the case of our inner cities, in its urge to help, Government has done many things that have been tremendously counterproductive.

At the top of that list is the Government's almost incomprehensibly large and mindless litany of rules and regulations that have literally driven businesses, jobs, capital, and work out of the inner cities. Rules and regulations meant to ensure the health, safety, and well-being of residents have instead compromised America's health, safety, survivability and well-being. Rules and regulations that have sought justice delivered injustice.

The net effect of a number of these rules and regulations has been to essentially redline our urban centers out of development, to drive out jobs and businesses and hopes. Let me just mention a few of those of which I speak. They are the same ones that EPA chief Carol Browner conceded makes areas "lose jobs, lose its tax base, lose hope."

Rules and regulations that require that industrial waste sites in our inner cities must be clean enough to eat one-half teaspoon of dirt every month for 70 years without worrying about getting cancer. Rules and regulations about how wide doors are, how high ceilings are, and whether stairs are inside or outside. Rules and regulations that simply have said the resources of the inner city can no longer be considered as productive and they will be ruled out as a potential for productivity, manufacturing or development.

Rules and regulations exemplified by a proposed EPA ban on asbestos pipes that would cost business more than \$250 million and would have theoretically saved the lives of six people over the next 13 years, about one-half as many as die from ingesting toothpicks.

For 30 years and more, regulations like these have been propagated and promulgated from on high. They are part of a one-size-fits-all regulatory regime that has allowed no flexibility for local differences and local needs. It is a regime written by bureaucrats who unfortunately are often out of touch and, even more inappropriately, out of control.

One of the most egregious sets of regulations, of course, comes under the broadly defined Superfund program enacted by Congress in 1980 with the intention of solving the problem of abandoned hazardous waste sites across America. Under the program, tens of billions of dollars have been spent by the Federal, State, and local

governments, corporations, individuals, and even churches. As economist James Bovard writes, the EPA has screwed up the program so badly that Superfund has long since qualified for the U.S. Government boondoggle hall of fame.

Under the EPA's interpretations of the law, the entire cost of cleaning up a site can fall on anyone who had anything to do with the site at any time. In New York at the Ludlow Sanitary Landfill, hundreds of businesses and nonprofit organizations have been forced to pay massive cleanup costs. What kind of organizations? A hospital, a number of public schools, and a pizza parlor.

These rules and regulations which sought environmental justice have ignored basic concepts of economic justice. These programs have cleaned the soil, but they sullied the environment. They have addressed certain risks but they have forgotten about unintended consequences. In short, under the guise of noise abatement we have exchanged the sounds of productivity for the silence of unused factories. Under the guise of environmental cleanup, we have substituted lead paint for .38 caliber lead flying through the air. With the tax of regulation, Government has robbed the poor of money, productivity, and opportunity.

Can anything be done? Yes. That is why I have introduced S. 1184, "the Urban Regulatory Relief Zone Act". This bill would provide an opportunity for people, businesses, and city officials to begin to reassert control over their own lives and destinies vis-a-vis their health, safety, and well-being.

Under this act, the mayor of any city with a population of 200,000 or more can appoint an Economic Development Commission with the power to evaluate, assess, and recommend for elimination or abatement onerous Federal rules and regulations. After a public hearing, the Commission appointed by the mayor could then send the applications for regulatory waivers to the Federal Government for approval from the appropriate agency to help protect the city from further harm.

It is designed to be a way in which regulations that elevate the risks by curtailing productivity and curtailing opportunity could be set aside in favor of the lower risks of regulatory abatement that would accompany the kinds of situations where people could have jobs and be involved in productivity.

We have, in fact, ignored the risks of unemployment, the bad health, the lack of survivability, that comes when people have no hope, when they have no employment, when they have no opportunity. Regulations have been inappropriately focused on cities to basically outlaw the past. That is the reason we pass a regulation, and sometimes we have done so at a social cost which has been incredibly high.

Instead of one-size-fits-all regulations designed in Washington and set loose on America, the Act would enable cities to invite businesses and individuals back into the cities without having to be responsible for the past sins of prior incarnations of industry. They can say that a factory can be opened without having to ensure that the dirt under the parking lot is edible. This would take a waiver, but this is the kind of waiver that ought to be available.

What this Act states is that we want businesses in the cities because we know that an employed person is safer and healthier than

an unemployed person, that an employed person, as the statistics tell us, is more likely to survive, that employed people are less likely to be killed in drive-by shootings, that employed individuals have this kind of hope and reason to go forward, and to have further investments in themselves and in their community.

Where there is economic vitality and industry, there is a far greater chance that young people will persist in their educational efforts, so that they persist to graduation from high school and go on to college. In this way we intend to upgrade what happens in our inner cities which have been the victims of this regulatory red-lining process of our Government.

I believe that it is time for us to look at these regulatory concerns as they relate to the well-being of the individuals in the areas in which regulations are imposed. Where the imposition of regulations actually undermines the safety, security, and employability of individuals, a community should have as an option an Economic Development Commission which could submit an application to the Federal Government and say, "Why don't we abate this particular requirement, because in so doing, it will increase the opportunity of our citizens to be productive, to be healthy, to be secure and safe, to be examples in their community for the kind of industry and productivity which will inspire young people to stay in school and inspire individuals to stay in the community and bring hope and to help people understand the meaning which can change the destiny of the inner cities of America."

Mr. Chairman, it is a long road back to hope and opportunity for our inner cities. Addressing regulations that do more harm than good is a start, it is not a place to end. I thank you for this opportunity to present this idea and to present this testify.

Chairman BOND. Senator, thank you very much for sharing with us not only your ideas but your specific examples of what they were designed to correct.

Something I just thought you might have heard and want to comment on. Our distinguished colleague from Massachusetts was saying earlier on that the effort to talk about revitalizing America's rural and urban communities was totally inconsistent with what is going on here in Washington. I assume that he is referring to budget and reconciliation and appropriations measures. Do you feel there is an inconsistency with what is being done on the floor and the efforts to revitalize America's rural and urban communities?

Senator ASHCROFT. If we do not control the out of control Government deployment of resources which is impairing our overall productivity, the growth potentials for America, we will find that decay will expand. Our control of Government, and our commitment to the fiscal integrity which will spur our economy in wonderful ways, is essential to the recovery of all of these areas of our country that are challenged. But it is essential to the survival of our Nation.

I think the simple fact, well understood and conceded by economists of every stripe, is that interest rates, for instance, will fall by several percentage points perhaps, between one and two percentage points, if we have a balanced budget. Think of what that will do for growth. Think of what that will mean for the potential of reinvestment in our cities.

Part of what we must do is to restore the fiscal integrity of America. Another part is to make it possible for that investment to occur in areas which have basically been prejudiced by Federal regulations. I believe that our urban centers have been prejudiced by the Federal regulations we have imposed. We have said your building is technically out of compliance, or there are certain risks. If you go back where someone has been previously involved in manufacturing, you might uncover something in the soil. You might uncover something in the flooring.

You and I know of a printing company in Kansas City who wants to expand, 80 employees. They would love to expand in the city center. They need to move to another floor of the building. In the concrete of the floor of the building there are objectionable elements which, if you grind the concrete up, will offend the EPA's requirements. They are trying to get a waiver so that they can stay in the city center, but our system is prejudicing them to move to a green field, to hollow out, to donut our cities, to take the core away, to take those jobs out.

Last year I worked at the Anpaul Window Company in St. Louis, worked with about half of the staff minorities, had good jobs. We built windows one day together. I commended the owner and said I am delighted to see you doing so well and ready to expand. He said yes, we will be expanding out of the city of St. Louis to a place called Washington, Missouri, a far cry from Washington, D.C. in many ways, a green field.

I asked why. He said EPA has four test wells under this leased property and I would not take this if you gave it to me. The point is that it was just another way of saying that the environment had ruled out the city as a place for development.

So we must balance the budget and we must look further than that to relieve the onerous burden which the core of our city centers bear as a result of regulations which were well intended, which try to make people safer, try to make them healthier, and end up making people subject to the lead poisoning of a .38 instead of paint.

Chairman BOND. Well, Senator, thank you very much.

As I indicated, the record will be kept open for further questions. I very much appreciate your willingness to come before this committee and share your views, suggestions, and ideas with us, as well as all of the other witnesses who have testified today. We appreciate those who have come to join us to hear these ideas for revitalizing America's communities.

The committee will stand in adjournment.

[Whereupon, at 11:52 a.m., the committee was adjourned.]



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APPENDIX MATERIAL SUBMITTED

PREPARED STATEMENT OF SENATOR LARRY PRESSLER
SENATE COMMITTEE ON SMALL BUSINESS
HEARING ON REVITALIZING AMERICA'S RURAL AND URBAN COMMUNITIES
OCTOBER 19, 1995

I thank the Chairman for calling this important hearing and I thank today's many witnesses for being here and sharing their insight.

Community revitalization is a difficult and complex issue, whether that community is in the urban gang territory of South Central Los Angeles, or in the open terrain of the Pine Ridge Indian Reservation in South Dakota. Many theories can be discussed, but success most often depends on the commitment and resourcefulness of individuals within those communities. Today's hearing will examine what we can do to encourage and reward individuals in their quests to raise their communities and neighborhoods out of poverty. Our country's greatest resource is the American citizen with a sense of individualism and community responsibility. We must tap this well of ingenuity if we want to see our cities and towns regenerate and grow.

When the federal government established Enterprise Zones and Enterprise Communities over one year ago, we attempted to move in this direction. I think everyone here agrees that our work did not end with that legislation -- we have a great distance to go. As the representative of one of the smallest states in the nation, we must involve small cities and towns in our community revitalization efforts. Rural areas also need to experience regeneration. Urban areas cannot succeed in the long run if we leave rural areas behind. Revitalization must occur across the board.

South Dakota and many other states like it are experiencing outmigration, especially among young people. Recent high school and college graduates do not see sufficient opportunity, and as a result, they are taking their talent and energies to larger cities. Indian reservation offer even greater challenges. During my service as Ranking Member of this committee, I held a hearing on small business opportunities in Indian Country. These crises in rural America must be addressed.

One obvious step we must take is to empower the innovators and entrepreneurs. This week, the Senate Finance Committee will make historic strides by cutting back the estate and capital gains tax rates. We must demonstrate to entrepreneurs that working hard and contributing to their neighborhoods and communities will be rewarded, not punished.

Now, we must consider our next steps. How do we capitalize on our successes and generate more growth? I look forward to hearing the good advice of my colleagues and our experts.



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